

CALIFORNIA LOTTERY Comprehensive Annual Financial Report

FOR THE FISCAL YEAR ENDED JUNE 30, 2011



CALIFORNIA LOTTERY IS AN ENTERPRISE FUND OF THE STATE OF CALIFORNIA



Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2011

California State Lottery An Enterprise Fund of the State of California



Committed to enhancing education and supporting local communities

Prepared by the
Finance Division of the
California State Lottery

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INTRODUCTORY SECTION



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December 31, 2011

The California State Lottery (Lottery) is pleased to provide this Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. The Finance Division of the Lottery prepared this CAFR to present an overview of the California State Lottery. The CAFR includes the Lottery's annual financial statements presented in accordance with accounting principles generally accepted in the United States of America and audited in accordance with auditing standards generally accepted in the United States of America.

The CAFR covers the financial activity of the Lottery, a single enterprise fund. The report follows formal standards of the Government Finance Officers Association of the United States and Canada (GFOA). Government organizations that publish this type of report can be compared to each other because similar types of information are included in the report.

This letter of transmittal is designed to complement the Management's Discussion and Analysis that accompanies the financial statements and should be read in conjunction with it.

Lottery management is responsible for the accuracy and completeness of the presentation, including all disclosures in this report. To the best of our knowledge, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position, results of operations, and the cash flows of the Lottery. All disclosures necessary to gain an understanding of the Lottery's financial activities have been included.

California statutes require an annual financial audit by an independent Certified Public Accountant (CPA). The independent auditors' report on the Lottery's financial statements is included in the financial section of this report.

Profile of the Lottery

The Lottery was created by a 1984 ballot initiative that was approved by 58 percent of the voters. From the ballot initiative, the Lottery was established as an independent state agency to market and sell lottery products to the California public. The Lottery Act specifies that the Lottery is operated and administered by a five-member Commission appointed by the Governor. A Director, who is appointed by the Governor, serves as the chief administrator of the Lottery.

Lottery ticket sales began on October 3, 1985, with the sale of the first Scratchers® ticket game called "California Jackpot." More than 21 million tickets were sold on the very first day and more than 1.7 billion tickets were sold in the first nine months.

Draw Game sales began on October 14, 1986, with Lotto 6/49®. Daily draw games were introduced in March 1990. The Lottery currently offers seven draw games. Players have 180 days from the date of the drawing to claim prizes, except for the Mega Millions jackpot prize which is one year. Retailers pay prizes up to \$599 while prizes over \$599 are paid directly by the Lottery. A brief description of each game is provided below.

The Legislature has the authority to amend the Lottery Act by a two-thirds majority, if by doing so; it furthers the purposes of the measure.

On April 8, 2010, the Legislature amended the Lottery Act with Assembly Bill (AB) 142. AB 142 established that the Lottery be required to return not less than 87 percent of revenues to the public in the form of prizes and contributions to education, and that the Lottery spend no more than 13 percent of revenues on operating expenses. Prior to AB 142, the Lottery was required to return, as nearly as practical, 50 percent of revenues to the public in the form of prizes; at least 34 percent to public education; and allocate no more than 16 percent to administrative costs. As a result of the revenue distribution changes from AB 142, the Lottery expects to deliver increases in sales and revenues to the public in the form of both prizes and contributions to education.



Scratchers[®] – Scratchers are instant ticket games that are played by scratching the latex covering off a play area and learning “instantly” whether the ticket is a winner. There are different ways to win a Scratchers game, such as matching two or three like symbols, your score beats their score, or your symbol matches a key symbol. The Lottery started Scratchers game sales in October 1985 with a \$1 game. Multiple Scratchers games were first offered at retailer locations in October 1991. The Lottery’s first Scratchers game that retailed for more than \$1 went on sale in October 1993.



SuperLOTTO Plus[®] – Players select five lotto numbers from a field of 1 through 47 and one mega number from a field of 1 through 27. There are nine prize categories in this game. To win the jackpot, players must match all five lotto numbers plus the mega number. Jackpot prizes start at \$7 million and have reached more than \$190 million. Winning numbers are drawn every Wednesday and Saturday at 7:57 p.m. PST.



MEGA Millions[®] – Players select five lotto numbers from a field of 1 through 56 and one mega number from a field of 1 through 46. There are nine prize categories in this game. To win the jackpot, players must match all five lotto numbers plus the mega number. Jackpot prizes start at \$12 million and have reached as high as \$390 million. Winning numbers are drawn every Tuesday and Friday at 8:00 p.m. PST. MEGA Millions is one of the largest multi-state lottery games in North America.



Hot Spot[®] – This game was designed primarily for social trade styles like restaurants and bowling centers, but is available at all retailer locations. Players select numbers from a field of 1 through 80 and have a choice of playing ten different “spots:” one, two, three, four, five, six, seven, eight, nine, or ten spots. For example, a player who chooses to play a “three spot” would pick a set of three numbers. Players can also select the “Bulls-eye” option for a chance at winning more prizes. There are a total of 58 prize categories (including the Bulls-eye prizes) in this game. Draws are conducted daily every four minutes with the first draw at 6:04 a.m. and last draw at 2:00 a.m. Twenty winning numbers are selected for each draw. Draw results are available statewide at all Lottery retail locations that sell this game.



Daily 3 – This daily game was designed to provide very good odds of winning smaller prizes. Players select a set of three numbers from 0 through 9, as well as a play/style where players try to match the three numbers drawn in the exact order or in any order. Based on the selected play/style (straight, box, or straight/box), there are many ways to win a prize. The top prizes average \$500. Winning numbers are drawn twice a day.



Daily 4 – This daily game was designed to offer a similar playstyle as Daily 3, but with larger prizes. Players select a set of four numbers from 0 through 9, as well as a play style where players try to match whether the four numbers drawn will be in the exact order or in any order. Based on the selected play/style (straight, box, or straight/box), there are many ways to win a prize. The top prize averages \$5,000. Winning numbers are drawn once a day.



Daily Derby[®] – This daily game was designed with a horse racing theme, but is not associated with the results of any actual horse race. Players select three “horses” from a field of 12 and a “race time” which is a set of three numbers (e.g. 0, 1, and 9) with each number selected from a field of 0 through 9. There are five prize categories in this game. Top prizes start at \$50,000 and have reached more than \$1 million for matching the race time and all three horses in exact order.

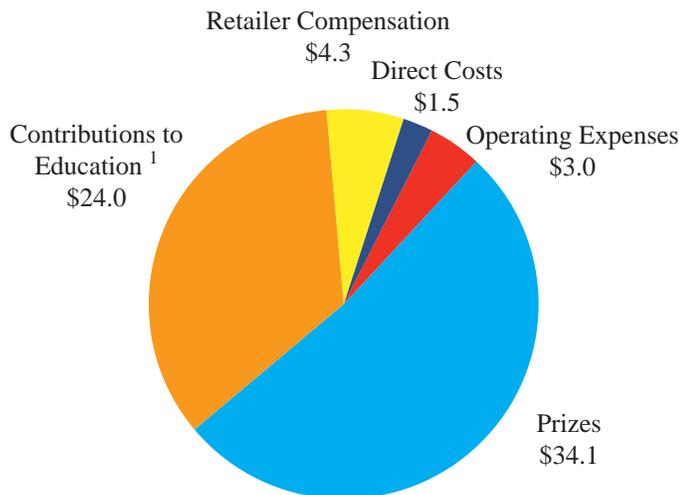


Fantasy 5 – This daily lotto-style game was designed with better odds than Super LOTTO Plus[®]. Players select a set of five numbers from 1 through 39. Winning tickets are those that match any two, three, four, or all five of the five numbers drawn. There are four prize categories in this game. Top prizes start at \$50,000 and have reached more than \$700,000 for matching all five numbers.



Raffle - Players may win prizes by matching their raffle numbers to the winning numbers draw by the Lottery. Raffle games are offered for a limited time and the prize structure for each Raffle game may vary. The top prize for raffle games offered to date has been \$1 million.

Distribution of Revenues
(in billions)
October 3, 1985 - June 30, 2011



(1) Includes interest income, unclaimed prizes, and other income of approximately \$1 .1 billion.

From its inception in 1985 through June 30, 2011, the Lottery has generated approximately \$65.8 billion in sales and contributed over \$24.0 billion to schools. The retailers who sell lottery tickets have received over \$4.3 billion in compensation. Approximately \$34.1 billion has been won by lucky Lottery winners.

Additionally, by saving money on operations, the Lottery has given more money to schools than required. Since October 1985, the Lottery has contributed an additional \$607 million to education through operational savings.

Relevant Financial Policies

Accounting System and Policies

The Lottery operates the California State Lottery Fund, an enterprise fund that, like a private business, utilizes the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Budgetary Controls

Budgetary control for the Lottery is addressed through its enabling legislation, which provides specific limitations on operating and administrative expenses. A comprehensive annual budget is prepared in conjunction with the Lottery's Annual Business Plan. The budget is prepared on both a cash basis and a full accrual basis of accounting. It is also prepared in distinct, quarterly segments to facilitate comparison to the quarterly financial statements.

The budget is based on sales forecasts, industry trends, program proposals, and approved action plans. While the Lottery does not have a legislatively appropriated budget, the operating budget is submitted to the Lottery Commission with the Annual Business Plan for approval. Actual costs are monitored throughout the year for compliance with the approved budget and appropriate adjustments are approved if necessary.

Internal Controls

An internal control structure has been designed to ensure that assets are protected from loss, theft, or misuse, and to ensure that the accounting system allows compilation of accurate and timely financial information. The internal

controls are designed to provide reasonable assurance that these objectives are met. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

No matter how well internal controls are designed and operated, they can only provide reasonable assurances that the entity will be able to achieve its objective. Absolute assurance of the achievement of an objective cannot be obtained due to the limitations to any control system. The human equation alone introduces the possibility of mistakes, judgment errors, control overrides, and even collusion. Each of these factors individually or in conjunction can reduce the entity's ability to achieve its goal. Beyond the human equation, mechanical and technical breakdowns can have equal measure in displaying the limitations of internal controls. Finally, unforeseen circumstances and factors can also materialize that require changes to the traditional internal control structure.

To enhance controls, Lottery management has separate responsibilities and provides approval and oversight for the following functions: personnel and payroll; purchasing and accounts payable; cash receipts and cash disbursements; retailer network management and retailer accounts receivable; and system data processing and system programming. Reviews of operations are achieved by the following procedures:

Internal Audits: Internal Audit personnel provide a continuing review of the internal controls and operations of the California Lottery.

Draw verification: An independent CPA firm witnesses the draws of Lottery games (except for computer automated drawings of Hot Spot[®]), and inspects any equipment used in such draws. An independent CPA firm and a Lottery security employee attend and witness each MEGA Millions[®] draw, regardless of draw location.

The following measures have been implemented to ensure the integrity of the Lottery:

- Specialized security and law enforcement staff
- Secured facilities and gaming equipment
- Background checks on retailers, contractors and Lottery employees
- Lottery tickets with special inks, dyes, and security codes
- Detailed and strict security procedures for game drawings
- Lottery random number generators in stand-alone systems, certified by an independent CPA firm prior to installation
- Lottery draw balls weighed and measured once a month to ensure standard compliance set by the Weights and Measures Division of the California Department of Agriculture

Employees

The Lottery has 644 authorized positions at its headquarters located in Sacramento and at nine district offices located in Sacramento, San Francisco, Hayward, Fresno, Van Nuys, Santa Fe Springs, Santa Ana, San Bernardino, and San Diego.

Debt Administration

The Lottery's long-term liabilities include payments owed to winners of Lotto jackpots and various Scratchers games with annuity prizes. The payments due to winners are funded by amounts invested in zero coupon U. S. Treasury bonds. Since its inception, the Lottery has purchased U.S. Treasury bonds to provide funds for long-term annuity payments to prize winners. However, changes in the financial markets created an opportunity to replace the Lottery's U.S. Treasury bonds with higher yielding high-credit quality instruments that would result in a net increase in proceeds for the Lottery. In 2009, with Commission approval, the Lottery undertook steps to restructure a portion of its investment portfolio with the goal of reducing the cost of investments for long-term annuity prize payments. The portfolio restructuring program ended in 2010.

Cash Management

Cash due from approximately 21,319 retailers is collected on a weekly basis through an electronic funds transfer

system and deposited into an account within the California State Treasurer's Office. Idle cash is invested in the Surplus Money Investment Fund, and interest earnings are received quarterly. The fund is administered by the Pooled Money Investment Board which is composed of the State Treasurer, the State Controller, and the Director of the Department of Finance.

Risk Management

The Lottery has elected, with a few exceptions, to be self-insured against loss or liability. Losses are accrued when the related liabilities occur. Except for workers' compensation costs initially paid by the State Compensation Insurance Fund for self-insured state agencies, the Lottery has purchased commercial insurance policies for protection from loss on certain assets. Additionally, major or critical contracts for the purchases of goods and services include requirements of vendors to maintain insurance coverage and/or financial security instruments, such as performance bonds or letters of credit.

Major Initiatives

In the 26th year since voters approved the creation of the California Lottery, we are excited about our progress in just the first year following the passage of Assembly Bill 142 by Assemblymember Mary Hayashi (D-Hayward) and the implementation of a new three-year business plan.

As a result of these two improvements, for the second year in a row, the California Lottery's sales have increased. For Fiscal Year 2010-2011, the Lottery reports sales of nearly \$3.44 billion, which represents a 13 percent increase from last fiscal year's total of \$3.04 billion. In total, the Lottery sent \$38.8 million more to schools this year than last year – almost \$1.13 billion in FY 2010-2011 versus approximately \$1.09 billion in FY 2009-2010. This makes it the eleventh consecutive year that the Lottery has contributed more than one billion dollars to supplement California's public school budgets.

The California Lottery is now the fastest growing lottery in the United States. Two main factors have led to that growth. First, Assembly Bill 142 gave the California Lottery the freedom to set prize payouts at a level that maximizes the education contribution. As a result, the experience and best practices of other jurisdictions are being utilized to design and market products specifically for the California marketplace. These improvements include raising prize payouts and creating more winners. In just over six months, these products have led to an increased appeal for consumers and growth in foot traffic and sales for the more than 21,319 retailers across the state.

Second, the Lottery's 2010-13 Business Plan made fundamental changes to the way we operate. Specifically, a new business model called Ex\$ell has been implemented, which was designed to help retailers manage their business more efficiently in ways that better activate, display, and sell their new Scratchers tickets. The sales staff focuses on innovative selling and service tactics that drive up sales quickly. In addition, the Lottery launched an effective advertising campaign that has increased sales by as much as 20% to 30% during the campaign. The Lottery also designed an industry-leading business analytics program that provides staff with timely data to track, monitor, and measure key performance indicators.

This critical information is used in real time to take quick and decisive action both internally and in the marketplace. Lastly, an enterprise-wide Project Management Program has also been successfully implemented, and emphasizes the importance of consumer research and long-term planning.

While sales and profits are a good indicator of success, it is recognized that the California Lottery has a responsibility beyond selling products. A Corporate Social Responsibility Program was established that coordinates and communicates efforts in problem gambling prevention, consumer protection, and transparency of operation. In July 2011, the Lottery's efforts were recognized by the World Lottery Association when it received a Level 3 Certification for Responsible Gaming. This comprehensive certification program assesses a lottery's efforts to sell its products in a responsible manner. California is now one of only a few North American Lotteries with a Level 3 Certification.

And, as always, the Lottery continues to look for ways to contribute even more to California schools. The Lottery continued its sponsorship of the state's regional spelling bees, sending 14 deserving students to the national spelling bee in Washington D.C.

Local Economy¹

Both the nation and California appear to be in the midst of a modest, drawn-out recovery. The private sector, outside of homebuilding, is leading the way. For California, export-driven and high-technology sectors are doing particularly well due to the general recovery of the global economy.

Despite recent upbeat indications, the return to pre-recession conditions will be slow and steady.

(1) Department of Finance, excerpted from California Economic Indicators (May – June 2011)

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Lottery for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This was the eighth consecutive year that the Lottery has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and are submitting it to the GFOA to determine its eligibility for another certificate.

This report demonstrates the professionalism and dedicated team effort of Lottery employees. We appreciate their contribution to the success of this report. The Lottery is committed to providing thorough and relevant financial information to the public. This CAFR reflects our commitment to meet the highest standards of accountability and to maintain public trust through the highest ethics and integrity.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael Ota". The signature is written in a cursive, flowing style.

Michael Ota, Deputy Director
Finance Division

Certificate of Achievement for Excellence in Financial Reporting

Presented to

California State Lottery

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

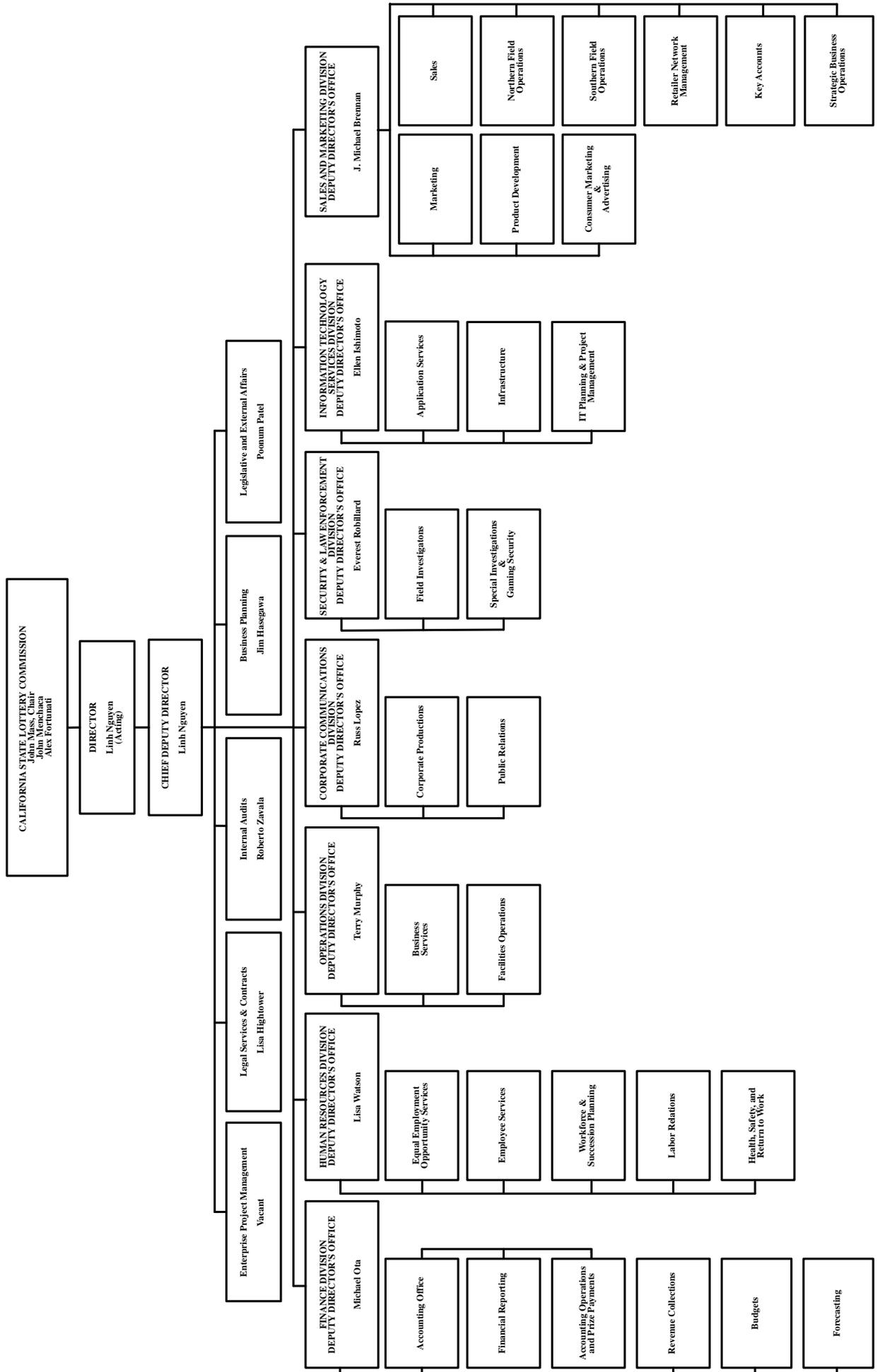
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

ORGANIZATION CHART WITH PRINCIPAL OFFICIALS



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FINANCIAL SECTION



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KPMG LLP
Suite 800
400 Capitol Mall
Sacramento, CA 95814

Independent Auditors' Report

The California State Lottery Commission
Sacramento, California:

We have audited the accompanying financial statements of the California State Lottery Fund (the Lottery) as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the California State Lottery Fund and do not purport to, and do not, present fairly the financial position of the State of California, as of June 30, 2011, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the California State Lottery Fund as of June 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 17 through 23 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



The California State Lottery Commission
Sacramento, California
Page 2

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the California State Lottery Fund's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

October 26, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the California State Lottery's financial performance provides an overview of financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the California State Lottery Financial Statements that follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the Lottery exceeded its liabilities at the close of the most recent fiscal year by \$103 million, which is attributable primarily to realized and unrealized gains on Lottery investments used to fund future payments due on annuitized Lottery prizes.
- The California Lottery's contribution to education increased \$38.8 million over the last fiscal year. This is the eleventh consecutive year the Lottery will transfer over \$1 billion to California's public schools and colleges. In addition, the California Lottery paid out more than \$1.9 billion in prizes to players and approximately \$233.6 million in commissions, cashing bonuses, and other applicable fees to retailers.
- California Lottery sales revenue increased 13.1 percent, or approximately \$397.6 million dollars over last fiscal year. This is primarily due to an increase in Scratchers sales of approximately \$340.8 million, or 20.5 percent. Fiscal year 2010/2011 marked the first full year in which the Lottery implemented two initiatives designed to increase Scratchers ticket sales:
 - Assembly Bill (AB) 142, signed into law in April 2010, gives the California Lottery greater flexibility to offer higher prize payout percentages. This change allowed the Lottery to keep multiple \$5 Scratchers games on the market throughout the fiscal year. Sales of \$5 Scratchers games increased 161 percent over the previous fiscal year, increasing from a weekly average of \$3.2 million before the implementation of AB 142 to a weekly average of \$11 million one year later.
 - The ex\$ell initiative - born out of the California Lottery's RENEW business planning and implementation effort begun last fiscal year - optimizes the District Sales Representatives' (DSR's) interactions with Lottery retailers. Ex\$ell emphasizes quick activations of new games, prominent display of \$5 Scratchers tickets, and optimal product mix to increase sales.
- During fiscal year 2010/2011 the California Lottery continued construction of its new headquarters building, begun the previous fiscal year, accounting for a \$41.7 million increase in the building asset account. The new building is LEED certified and contains several environmentally responsible, or green, features. Floor-to-ceiling windows with automated shades provide most work-time lighting. The second floor features a green roof and photovoltaic cells to efficiently manage energy use. The building was completed and staff moved in July 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

These required statements offer short-term and long-term financial information about the California State Lottery. The Statement of Net Assets provides information about the nature and amounts of investments in resources (assets) and obligations (liabilities) at the close of the fiscal year. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the Lottery's operations over the past year. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Lottery's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides answers to such questions as where did cash come from and what was cash used for. The financial statements are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. The California State Lottery is structured as a single enterprise fund with revenues recognized when earned, not when received.

NOTES TO THE FINANCIAL STATEMENTS

Financial statement notes provide additional information that is essential to a full understanding of the information provided in the statements. Please refer to the following notes:

- Note 1 - provides a general description of significant accounting policies of the California State Lottery including the implementation of new accounting pronouncements, investment accounting policies, and other significant accounting policies
- Note 2 - provides information about investments and deposits including the Lottery's investment policy, risk mitigation, and investment and deposit valuation
- Note 3 - provides information on accounts receivable
- Note 4 - provides information on money due to the Lottery from other state funds
- Note 5 - provides information on capital assets of the Lottery
- Note 6 - provides information on the Lottery's liability to prize winners
- Note 7 - provides information on money owed by the Lottery to other state funds, primarily to the Education Fund
- Note 8 - provides information on the operating leases of the Lottery
- Note 9 - provides information on the Lottery's investment earnings
- Note 10 - provides information on the retirement plan for Lottery employees and on Other Postemployment Benefits (OPEB)
- Note 11 - provides information on statutory compliance with the Lottery Act
- Note 12 - provides information on commitments and contingencies of the Lottery
- Note 13 - provides information on risk management

FINANCIAL ANALYSIS

NET ASSETS

A summary of the California State Lottery's net assets is presented below:

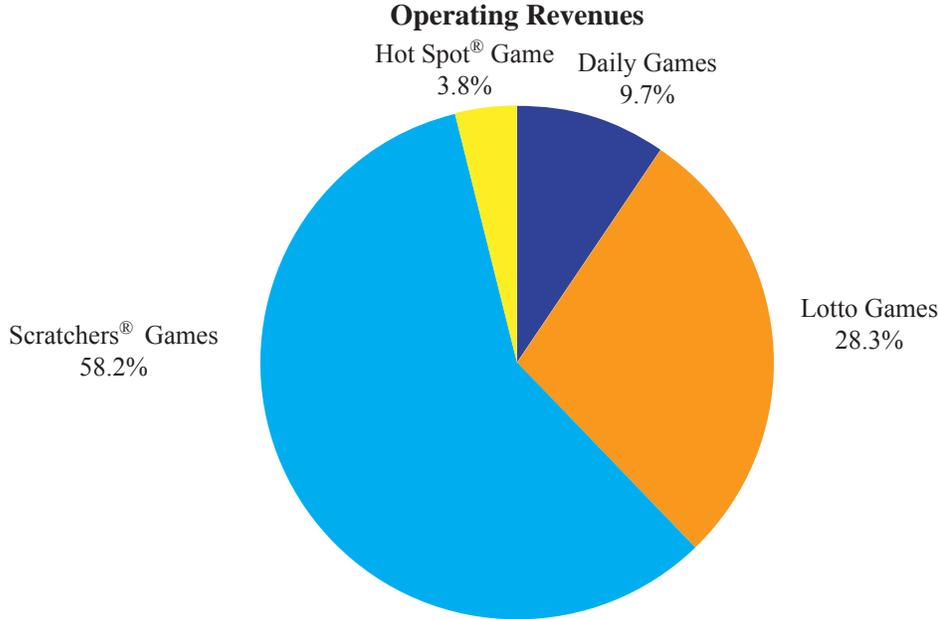
	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and other assets	\$ 1,883,682,961	\$ 1,731,347,034	\$ (152,335,927)	(8.1%)
Capital assets	<u>42,511,326</u>	<u>86,505,601</u>	<u>43,994,275</u>	<u>103.5%</u>
Total assets	<u>\$ 1,926,194,287</u>	<u>\$ 1,817,852,635</u>	<u>\$ (108,341,652)</u>	<u>(5.6%)</u>
Current liabilities	\$ 789,943,542	\$ 808,419,323	\$ 18,475,781	2.3%
Long-term liability	<u>1,010,400,578</u>	<u>906,416,841</u>	<u>(103,983,737)</u>	<u>(10.3%)</u>
Total liabilities	<u>\$ 1,800,344,120</u>	<u>\$ 1,714,836,164</u>	<u>\$ (85,507,956)</u>	<u>(4.7%)</u>
Invested in capital assets	\$ 42,511,326	\$ 86,505,601	\$ 43,994,275	103.5%
Restricted by legislation	125,850,167	103,016,471	(22,833,696)	(18.1%)
Unrestricted (deficit)	<u>(42,511,326)</u>	<u>(86,505,601)</u>	<u>(43,994,275)</u>	<u>103.5%</u>
Total net assets	<u>\$ 125,850,167</u>	<u>\$ 103,016,471</u>	<u>\$ (22,833,696)</u>	<u>(18.1%)</u>

A summary of the California State Lottery's change in net assets is presented below:

	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenues – Lottery sales	\$ 3,040,959,866	\$ 3,438,577,998	\$ 397,618,132	13.1%
Prizes	<u>1,611,371,074</u>	<u>1,904,787,955</u>	<u>293,416,881</u>	<u>18.2%</u>
Sales after prizes	\$ 1,429,588,792	\$ 1,533,790,043	\$ 104,201,251	7.3%
Game costs	<u>268,683,202</u>	<u>289,704,738</u>	<u>21,021,536</u>	<u>7.8%</u>
Income before operating expenses	\$ 1,160,905,590	\$ 1,244,085,305	\$ 83,179,715	7.2%
Operating expenses	<u>136,740,073</u>	<u>143,268,012</u>	<u>6,527,939</u>	<u>4.8%</u>
Operating income	\$ 1,024,165,517	\$ 1,100,817,293	\$ 76,651,776	7.5%
Non-operating (expenses) revenues	<u>(1,045,353,403)</u>	<u>(1,123,650,989)</u>	<u>(78,297,586)</u>	<u>7.5%</u>
Change in net assets	\$ (21,187,886)	\$ (22,833,696)	\$ (1,645,810)	7.8%
Total net assets – beginning of year	<u>147,038,053</u>	<u>125,850,167</u>	<u>(21,187,886)</u>	<u>(14.4%)</u>
Total net assets – end of year	<u>\$ 125,850,167</u>	<u>\$ 103,016,471</u>	<u>\$ (22,833,696)</u>	<u>(18.1%)</u>

REVENUES

The following chart shows the major sources and the percentages of operating revenues for the fiscal year ended June 30, 2011:



A summary of total revenues for the fiscal years ended June 30, 2010 and 2011, and the amount and percentage of change in relation to prior year amounts is as follows:

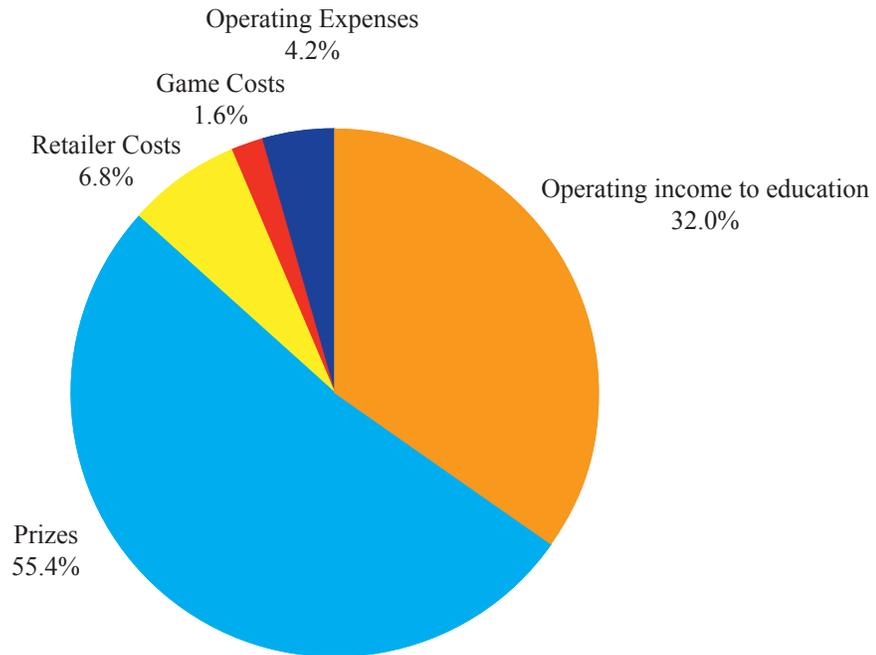
	June 30, 2010	June 30, 2011	Dollar Change	Percent Change
Operating revenues:				
Lotto games	\$ 947,769,847	\$ 973,179,589	\$ 25,409,742	2.7%
Scratchers® games	1,661,288,086	2,002,090,072	340,801,986	20.5%
Hot Spot® game	117,904,491	130,472,138	12,567,647	10.7%
Daily games	313,997,442	332,836,199	18,838,757	6.0%
Total operating revenues	\$ 3,040,959,866	\$ 3,438,577,998	\$ 397,618,132	13.1%
Non-operating revenues:				
Unrealized gains (losses) on investments	\$ 42,593,853	\$ (3,314,895)	\$ (45,908,748)	(107.8%)
Interest accreted/earned on investments	\$ 58,625,052	\$ 47,384,134	\$ (11,240,918)	(19.2%)
Interest on funds held by State Treasurer	2,732,562	1,976,999	(755,563)	(27.7%)
Other income	347,694	66,476	(281,218)	(80.9%)
Total non-operating revenues	\$ 104,299,161	\$ 46,112,714	\$ (58,186,447)	(55.8%)
Total revenues	\$ 3,145,259,027	\$ 3,484,690,712	\$ 339,431,685	10.8%

The increase in Lottery revenue is primarily attributable to a 20.5 percent increase in sales of Scratchers products due to the ex\$ell initiative and AB 142. Offering Scratchers games with higher prize payout percentages and offering an optimized product mix helped to increase Scratchers ticket sales by more than \$340.8 million. Sales for all other product categories also increased approximately \$56.8 million for the year, leading to a combined total sales increase of 13.1 percent over the previous year. Non-operating revenues were lower, primarily due to a decrease in the fair value of investments and on the interest earned on funds in the Surplus Money Investment Fund (SMIF) due to lower market interest rates.

EXPENSES

The following chart shows prizes, game costs, operating expenses, and allocations as a percentage of operating revenues for the fiscal year ended June 30, 2011:

Prizes and Operating Income Returned to the Public, and Expenses of the Lottery as a Percentage of Operating Revenues



See Note 11 of the accompanying financial statements for more information on expenses as a percentage of revenues.

A summary of expenses for the fiscal years ended June 30, 2010 and 2011, and the amount and percentage change in relation to prior year amounts is as follows:

	<u>June 30, 2010</u>	<u>June 30, 2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Prizes:				
Draw game prizes	\$ 674,624,512	\$ 708,841,127	\$ 34,216,615	5.1%
Scratchers game prizes	923,604,176	1,196,097,328	272,493,152	29.5%
TV Show	13,142,386	(150,500)	(13,292,886)	(101.1%)
Total prizes	<u>\$ 1,611,371,074</u>	<u>\$ 1,904,787,955</u>	<u>\$ 293,416,881</u>	<u>18.2%</u>
Game costs:				
Retailer costs	\$ 214,484,059	\$ 233,571,290	\$ 19,087,231	8.9%
Draw/Scratchers game costs	54,199,143	56,133,448	1,934,305	3.6%
Total game costs	<u>\$ 268,683,202</u>	<u>\$ 289,704,738</u>	<u>\$ 21,021,536</u>	<u>7.8%</u>
Operating expenses:				
Salaries, wages, and benefits	\$ 46,011,332	\$ 52,084,571	\$ 6,073,239	13.2%
Advertising	33,666,684	52,982,897	19,316,213	57.4%
Promotion, public relations, and point of sale	8,025,477	6,635,267	(1,390,210)	(17.3%)
Other professional services	10,341,565	10,677,764	336,199	3.3%
Depreciation and amortization	20,417,236	5,874,683	(14,542,553)	(71.2%)
Other general and administrative expenses	18,277,779	15,012,830	(3,264,949)	(17.9%)
Total operating expenses	<u>\$ 136,740,073</u>	<u>\$ 143,268,012</u>	<u>\$ 6,527,939</u>	<u>4.8%</u>
Non-operating expenses:				
Allocations to Education Fund	1,072,496,752	1,102,860,768	30,364,016	2.8%
Interest imputed on annuitized prize liability	77,155,812	66,902,935	(10,252,877)	(13.3%)
Total non-operating expenses	<u>\$ 1,149,652,564</u>	<u>\$ 1,169,763,703</u>	<u>\$ 20,111,139</u>	<u>1.7%</u>
Total expenses	<u>\$ 3,166,446,913</u>	<u>\$ 3,507,524,408</u>	<u>\$ 341,077,495</u>	<u>10.8%</u>

The increase in Scratchers game prizes is directly related to the increase in Scratchers ticket sales, and to the higher prize payout percentages allowed with the passage of Assembly Bill (AB) 142. Draw game prizes increased in relation to the increase in draw game sales. The negative amount for the TV Show prize expense reflects the reversal of a prior-year accrual associated with the Make Me a Millionaire television show, which was ended last fiscal year. Associated game costs increased as sales increased. Advertising costs increased 57.4 percent due to the kick-off campaign announcing the higher prize-payout Scratchers games, as well as the continuation of jackpot advertising campaigns started last year. The decrease in depreciation and amortization expense is due to increased expenses last year related to the impairment of the old headquarters building and the television show sets. In addition, a large number of vending machines and gaming equipment fully depreciated and thus depreciation expense was lower in these two categories.

CAPITAL ASSETS

A summary of capital assets as of June 30, 2010 and 2011, and the amount and percentage of change in relation to prior year amounts is as follows:

	June 30, 2010	June 30, 2011	Dollar Change	Percent Change
Non-depreciable capital assets:				
Land	\$ 6,469,219	\$ 6,469,219	\$ -	0.0%
Depreciable capital assets:				
Gaming equipment	\$ 17,813,582	\$ 14,587,073	\$ (3,226,509)	(18.1%)
Vending machines	34,243,343	34,243,343	-	0.0%
Buildings	24,082,716	65,762,710	41,679,994	173.1%
Data processing equipment	9,019,032	13,368,392	4,349,360	48.2%
Office furniture and equipment	8,468,599	12,350,247	3,881,648	45.8%
Leasehold improvements	810,558	810,558	-	0.0%
Other	6,725,850	6,725,850	-	0.0%
Subtotal	<u>\$ 101,163,680</u>	<u>\$ 147,848,173</u>	<u>\$ 46,684,493</u>	<u>46.1%</u>
Less accumulated depreciation	<u>(65,121,573)</u>	<u>(67,811,791)</u>	<u>(2,690,218)</u>	<u>4.1%</u>
Total depreciable capital assets	<u>\$ 36,042,107</u>	<u>\$ 80,036,382</u>	<u>\$ 43,994,275</u>	<u>122.1%</u>
Capital assets, net	<u>\$ 42,511,326</u>	<u>\$ 86,505,601</u>	<u>\$ 43,994,275</u>	<u>103.5%</u>

The increase in the buildings account was due to continued construction costs of a new building. The office furniture and equipment and data processing equipment accounts increased related to preparing the new building for operation. The decrease in the gaming equipment account was due to the disposal of the Make Me a Millionaire television show sets, which were impaired last fiscal year. More information on the Lottery's capital assets can be found in Note 5.

LONG - TERM DEBT

At June 30, 2011, the California State Lottery had over \$906.4 million in non-current liabilities versus approximately \$1.01 billion last year, a decrease of 10.3 percent. Most of the change is attributable to lotto game prize liability as the majority of SuperLOTTO Plus® and MEGA Millions® jackpot winners choose the cash option rather than annuitized payments. In addition, nearly \$5.6 million was accrued for the Net OPEB Obligation (NOO) as required by Statement No. 45 of the Governmental Accounting Standards Board, bringing the total accrued OPEB liability to \$20.4 million as of June 30, 2011. Additional detailed information on long-term prize liability may be found in Note 6 and additional information on the NOO may be found in Note 10.

CONTACTING THE LOTTERY'S FINANCIAL MANAGER

This financial report is designed to provide a general overview of the California State Lottery's finances and to demonstrate the accountability for the money the Lottery earns. If you have questions about this report or need additional financial information, contact the California State Lottery, Finance Division, 700 N. 10th Street, Sacramento, CA 95811.

CALIFORNIA STATE LOTTERY FUND
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS

Current assets:	
Cash and cash equivalents (Note 2)	\$ 279,172,951
Investments, current portion (Note 2)	180,585,240
Accounts receivable, net of allowances (Note 3)	262,510,955
Due from state funds (Note 4)	517,456
Ticket inventories	6,715,425
Other	<u>2,211,511</u>
Total current assets	\$ 731,713,538
Non-current assets:	
Investments, less current portion (Note 2)	\$ 997,204,781
Capital assets, net (Note 5)	86,505,601
Deferred charges, net	<u>2,428,715</u>
Total non-current assets	\$ 1,086,139,097
TOTAL ASSETS	<u>\$ 1,817,852,635</u>

LIABILITIES

Current liabilities:	
Accounts payable	\$ 53,376,814
Current prize liability (Note 6)	465,693,237
Due to state funds (Note 7)	277,175,969
Accrued liabilities	9,036,737
Unearned revenue	<u>3,136,566</u>
Total current liabilities	\$ 808,419,323
Non-current liabilities:	
Prize liability, less current portion (Note 6)	\$ 886,008,841
Other (Note 10)	<u>20,408,000</u>
Total non-current liabilities	\$ 906,416,841
TOTAL LIABILITIES	<u>\$ 1,714,836,164</u>

Commitments and contingencies (Notes 8 and 12)

NET ASSETS

Invested in capital assets	\$ 86,505,601
Restricted by legislation (Note 2)	103,016,471
Unrestricted deficit	<u>(86,505,601)</u>
TOTAL NET ASSETS	<u>\$ 103,016,471</u>

See accompanying notes to the financial statements.

CALIFORNIA STATE LOTTERY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011

Operating revenues: Lottery sales	\$ 3,438,577,998
Prizes	<u>1,904,787,955</u>
Sales after prizes	<u>\$ 1,533,790,043</u>
Less game costs:	
Retailer costs	\$ 233,571,290
Draw game costs	35,428,111
Scratchers game costs	<u>20,705,337</u>
Total game costs	<u>\$ 289,704,738</u>
Income before operating expenses	<u>\$ 1,244,085,305</u>
Operating expenses:	
Salaries, wages, and benefits	\$ 52,084,571
Advertising	52,982,897
Promotion, public relations, and point of sale	6,635,267
Other professional services	10,677,764
Depreciation and amortization	5,874,683
Other general and administrative expenses	<u>15,012,830</u>
Total operating expenses	<u>\$ 143,268,012</u>
Operating income	<u>\$ 1,100,817,293</u>
Non-operating (expenses) revenues:	
Investment earnings (Note 9)	\$ 46,046,238
Interest expense imputed on annuitized prize liability	(66,902,935)
Other income	66,476
Allocation to Education Fund (Note 7)	<u>(1,102,860,768)</u>
Total non-operating (expenses) revenues	<u>\$ (1,123,650,989)</u>
Change in net assets	\$ (22,833,696)
Total net assets - beginning balance	<u>125,850,167</u>
Total net assets - ending balance	<u><u>\$ 103,016,471</u></u>

See accompanying notes to the financial statements.

CALIFORNIA STATE LOTTERY FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

Cash flows from operating activities:	
Receipts from customers	\$ 3,437,077,119
Payments for prizes	(2,200,194,964)
Payments to retailers	(233,595,915)
Payments to suppliers for goods and services	(148,892,888)
Payments to employees	(39,467,406)
Internal activity-payments to state funds	(11,228,541)
Receipts from other states	138,439,310
Other receipts	<u>127,852</u>
Net cash flows provided by operating activities	<u>\$ 942,264,567</u>
Cash flows from non-capital financing activities:	
Distributions to Education Fund	<u>\$ (1,118,080,448)</u>
Net cash flows used in non-capital financing activities	<u>\$ (1,118,080,448)</u>
Cash flows from capital and related financing activities:	
Payments for capital assets	<u>\$ (49,868,958)</u>
Net cash flows used in capital and related financing activities	<u>\$ (49,868,958)</u>
Cash flows from investing activities:	
Purchase of securities	\$ (260,722,945)
Proceeds from matured securities	192,662,000
Proceeds from sale of securities	252,561,290
Investment Portfolio and SMIF interest received	<u>25,291,926</u>
Net cash flows provided by investing activities	<u>\$ 209,792,271</u>
Decrease in cash and cash equivalents	<u>\$ (15,892,568)</u>
Cash and cash equivalents at July 1, 2010	<u>\$ 295,065,519</u>
Cash and cash equivalents at June 30, 2011	<u>\$ 279,172,951</u>

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011**

Cash flows from operating activities:	
Operating income	\$ 1,100,817,293
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	\$ 5,874,683
Provision for doubtful accounts	(359,769)
Provision for returned tickets	16,769,296
Provision for free ticket redemptions	(2,736,059)
Non-cash post retirement benefit plan change	5,588,000
Other income	66,476
Changes in assets and liabilities:	
Increase in accounts receivable	(35,914,875)
Decrease in due from other funds net of SMIF	286,320
Increase in ticket inventories	(1,899,946)
Increase in other assets	(595,590)
Increase in deferred charges	(243,436)
Increase in accounts payable	9,526,850
Decrease in prize liability	(156,967,699)
Increase in due to state funds	37,061
Increase in accrued liabilities	1,602,573
Increase in deferred revenues	<u>413,389</u>
 Net cash flows provided by operating activities	 <u><u>\$ 942,264,567</u></u>

Supplemental disclosure of non-cash activities:

Interest accreted on annuitized prizes	<u><u>\$ 66,902,935</u></u>
Unclaimed prizes directly allocated to the Education Fund	<u><u>\$ 25,690,477</u></u>
Unrealized loss on investments	<u><u>\$ (3,314,895)</u></u>
Interest accreted on zero coupon bonds	<u><u>\$ 23,651,651</u></u>

See accompanying notes to the financial statements.

**CALIFORNIA STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The California State Lottery Fund (the Lottery) was created with the passage of the California State Lottery Act of 1984 (the Act). The Lottery is a part of the primary government of the State of California and is reported as a proprietary fund and business-type activity within the State of California's financial statements. The purpose of the Act is to support the preservation of the rights, liberties, and welfare of the people by providing additional monies to benefit education without the imposition of additional or increased taxes. The operations of the Lottery are separate and distinct from other operations of the State of California.

On April 8, 2010, the Governor signed Assembly Bill (AB) 142 amending the Lottery Act to allow the Lottery to offer its players a higher prize payout percentage. Lottery management believes that higher prize payouts will result in increased sales revenues and thus increased allocations to education. Under AB 142 beginning with the 2010/2011 fiscal year, the Lottery is required to return not less than 87 percent of revenues to the public in the form of prizes and contributions to education, and to spend no more than 13 percent of revenues on operating expenses of the Lottery.

In addition, AB 142 requires that for each fiscal year beginning with 2010/2011, the Lottery's contribution to education under the new percentages be greater than it was in the 2008/2009 base fiscal year, otherwise the law reverts back to previous percentages. Previously, the Act mandated that, as nearly as practical, 50 percent of the total annual revenues from Lottery sales be returned to the public in the form of prizes, at least 34 percent be allocated to benefit public education and no more than 16 percent of the total annual revenues from sales of tickets or shares shall be allocated for payment of operating expenses of the Lottery. Information on the Lottery's statutory compliance can be found in Note 11.

Basis of Presentation

The Lottery is accounted for as an enterprise fund. The financial statements are prepared on the accrual basis of accounting and the economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America. Operating revenue and expenses are those that result from providing services and producing and delivering goods and/or services.

Revenue Recognition – Scratchers® Games

Sales of lottery tickets are made to the public through contracted retailers. Revenue is recognized upon the sale of tickets to the retailers for active games. An allowance is recognized for the retailers' right to return unsold tickets after each game end. Operating revenue is reduced for free tickets. Retailers receive a commission of six percent which is recognized when tickets are sold to the retailers.

Revenue Recognition - Draw Games

Lottery sales are made to the public through gaming terminals at contracted retailers. Revenue is recognized upon the sale to the public. With the exception of MEGA Millions®, the public has the right to cancel a sale on the same day before pool closure. All MEGA Millions sales are final. The applicable retailers' commission of four and one-half to six percent is recognized when sales are made to the public.

Recognition of the revenue from sales for future draws is deferred until those draws become current. The retailers' commission related to the deferred revenue is reflected as a prepaid expense until the related deferred revenue is recognized.

Prizes – Scratchers Games

Prize expense for Scratchers games is recognized based on the predetermined prize structure for each game in the period revenue is recognized. Prizes that are not claimed are recognized as unclaimed prizes 180 days after

**CALIFORNIA STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prizes – Scratchers Games (continued)

the end of each game. Unclaimed prizes not directly payable by the Lottery are recognized as a reduction of prize expense and included in the Lottery's operating income that is allocated to the Education Fund. Unclaimed prizes directly payable by the Lottery are allocated directly to the Education Fund. Prize expense relative to the Lottery's television show was recorded based on the estimated prize structure and then adjusted to reflect amounts actually won.

Prizes of \$1 million or more are generally paid in equal annual installments over twenty or twenty-five years. The Weekly Grand, the Extravaganza 2000, the Twice as Grand, and the Weekly \$2,000 Payday top prizes are paid in weekly installments for twenty years. The Decade of Dollars top prizes are paid in annual installments for ten years. The top prizes for the Cash for 20 Years game and the \$750,000 Payday game are paid in annual, graduated payments over twenty-year and twenty-five-year periods, respectively. Prize expense for these prizes is based on the present value of the annuity using an interest rate equal to the interest yield on the zero coupon U.S. Treasury bonds which the Lottery acquires to fund the annuity payments. Interest earned is imputed on the annuity using the same interest rate.

The Next Millionaire, California Millionaire and Millions in Cash games all feature top prizes of \$1 million, each paid in a single payment.

Prizes - Draw Games

SuperLOTTO Plus[®] and MEGA Millions - Prize expenses for the twice-weekly draw games are recognized on the basis of the predetermined prize structure when the revenue is recognized. Nine distinct prize categories are established which are dependent upon the amount of money wagered and the quantity of numbers to be matched. In the event that no winning share for a specific prize category in SuperLOTTO Plus is selected, all monies allocated for that prize are carried forward to the following drawing and added to the Five of Five plus MEGA number category (grand prize). In the event that no winning share for a specific prize category in MEGA Millions is selected, all monies allocated for that prize are carried forward to the following drawing and remain in the pool for that same prize category.

The total Grand/Jackpot prize liability for each multi-state MEGA Millions drawing shall be shared by each participating state lottery (Party Lottery) as follows: each Party Lottery shall be responsible for an amount equal to a percentage of that Party Lottery's MEGA Millions sales, said percentage being the proportion of the total Grand/Jackpot prize liability to total MEGA Millions sales. The California State Lottery is prohibited by state law from paying fixed prizes and participating in the liability calculation for prize levels two (2) through nine (9). The California State Lottery shall be solely responsible for its own prize liability for prize levels two (2) through nine (9).

All SuperLOTTO Plus prizes won but not claimed within the specified period are allocated directly to the Education Fund. In the event that a MEGA Millions grand/jackpot prize won in California is unclaimed, the prize monies will be returned to the Party Lotteries in the same ratio that each Party Lottery contributed to such prize plus interest and the amount contributed for the grand/jackpot prize by the California State Lottery will be allocated directly to the Education Fund. The unclaimed prize monies for all other MEGA Millions prize categories won in California but not claimed within the specified period are allocated directly to the Education Fund.

Super LOTTO grand/jackpot prizes won prior to April 1, 1998, of \$1 million or more are paid in twenty equal annual installments. Effective April 1, 1998, grand/jackpot prizes of \$1 million or more are paid either in twenty-six graduated annual payments or in a single payment equal to the cash value of the twenty-six-payment annuity, in accordance with the rules and regulations of the Lottery. Beginning September 21, 2005, claimants have up to 60 days after the date they became entitled to the prize to irrevocably elect to receive the cash value or the annuitized payments. Payments for all other prize categories are made in a single payment.

**CALIFORNIA STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prizes – Draw Games (continued)

MEGA Millions grand/jackpot prizes won in California are paid in 26 equal annual installments, however, claimants have up to 60 days after the date they became entitled to the prize to irrevocably elect to receive the cash value of the prize instead of 26 annual payments. Payments for all other prize categories are made in a single payment.

Fantasy 5 - Prize expense for the seven-draws-per-week game is recognized on the basis of the predetermined prize structure when the revenue is recognized. Distinct prize categories are established dependent upon the amount of money wagered and the quantity of numbers to be matched. In the event that no winning share for a specific prize category is selected, all monies allocated for that prize category are carried forward to the following drawing and added to the 5 of 5 prize category. All Fantasy 5 prizes won but not claimed within the specified period are allocated directly to the Education Fund.

Daily 3 - Prize expense for the two-draws-per-day game is recognized on the basis of the predetermined prize structure when the revenue is recognized. Distinct prize categories are established which are dependent upon the amount of money wagered, the quantity of numbers to be matched, and the order of numbers chosen. All Daily 3 prizes won but not claimed within the specified period are allocated directly to the Education Fund.

Daily 4 - Prize expense for the seven-draws-per-week game is recognized on the basis of the predetermined prize structure when the revenue is recognized. Distinct prize categories are established which are dependent upon the amount of money wagered, the quantity of numbers to be matched, and the order of numbers chosen. All Daily 4 prizes won but not claimed within the specified period are allocated directly to the Education Fund.

Daily Derby[®] - Prize expense for the seven-draws-per-week game is recognized on the basis of the predetermined prize structure when the revenue is recognized. Distinct prize categories are established which are dependent upon the amount of money wagered, the quantity of numbers to be matched, and the order of numbers chosen. In the event that no winning share for a specific prize category is selected, all monies allocated for that prize category are carried forward to the following drawing and added to the Grand Prize category. All Daily Derby prizes won but not claimed within the specified period are allocated directly to the Education Fund.

Hot Spot[®] - Prize expense for the multiple-draws-per-day game is recognized on the basis of the predetermined prize structure when the revenue is recognized. On November 27, 2006, the Lottery established a Typical Prize Allocation (allocation) for the 8 Spot Match 8 of 8 category and Typical Prize Amounts (amounts) for all spots other than the 8 Spot Match 8 of 8 prize. On that date, the Lottery also made an irrevocable transfer to a Hot Spot Wagered Prize Fund (fund) to pay these allocations and amounts. In addition to the initial transfer, the fund balance is adjusted daily based upon daily sales contributions and prizes won. In the event the balance in the fund is not sufficient to pay the allocations and amounts of a particular draw, prizes will be systematically reduced until the fund is sufficient to pay the reduced amounts. The Director will authorize promotional prize augmentations to ensure that the fund balance at the end of any given fiscal year is liquidated. All Hot Spot prizes won but not claimed within the specified period are allocated directly to the Education Fund.

Prior to the change made on November 27, 2006, distinct prize categories were established which were dependent upon the amount of money wagered and the quantity of numbers to be matched. In the event that no winning share for a specific Hot Spot prize category was selected, all monies allocated for that prize category were carried forward to the following drawing and added to its respective prize category.

Raffle - The Lottery may periodically conduct raffle games. Players may win prizes by matching their raffle numbers to the numbers drawn by the Lottery. Prize expense for the game is recognized on the basis of a predetermined prize structure when the revenue is recognized. All Raffle prizes won but not claimed within the specified period are allocated directly to the Education Fund. The \$1 million top prizes for the two raffle games held to date were each paid in single payments.

CALIFORNIA STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash Equivalents

Cash equivalents represent cash deposited in the Surplus Money Investment Fund (SMIF).

Investments

The Lottery applies Statement No. 31 of the Governmental Accounting Standards Board (GASB 31), *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement establishes accounting and financial reporting standards for all investments held by governmental external investment pools and establishes fair value standards for other governmental entities. In accordance with GASB 31 the Lottery has stated investments at fair value. The difference between the carrying value and the fair value of investments is reported as a component of total net assets on the Statement of Net Assets.

The Lottery applies GASB 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No. 3*. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also are required to be disclosed.

Allowances for Doubtful Accounts, Ticket Returns, and Free Ticket Redemptions

The allowance for doubtful accounts is based on an analysis of collectibility of accounts receivable which considers the age of the accounts and historical collection results. An allowance for ticket returns for Scratchers games is estimated using sales revenue and historical return data for the games in progress at the end of the reporting period. An allowance for free ticket redemptions for Scratchers games is estimated using sales revenue and free ticket redemption data for games in progress at the end of the reporting period.

Ticket Inventories

Inventories are carried at cost and consist of tickets for games in progress not yet sold to retailers and tickets for future games. The cost of tickets is charged to operations when the tickets are sold to retailers. The cost of unissued and returned tickets are written off at the end of each game.

Capital Assets

The Lottery has adopted a policy of capitalizing assets with an acquisition cost or established value of \$5,000 or greater. Capital assets are carried at cost. Depreciation on property and equipment is computed using the straight-line method over estimated lives ranging from one to seven years. Depreciation on buildings, improvements, and land improvements is computed using the straight-line method over estimated lives of five to forty years. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in operations in the period of disposal. Amortization of leasehold improvements is computed using the straight-line method over the remaining lease terms.

The Lottery adopted GASB 51, *Accounting and Financial Reporting for Intangible Assets*, during the 2009/2010 fiscal year. The statement requires that all intangible assets not specifically excluded, including internally generated intangible assets, be classified as capital assets. There was no impact upon the adoption of GASB 51.

Deferred Charges

The Lottery incurs costs in connection with certain contracts which extend beyond a one-year period. These costs are deferred and amortized over the life of the contracts.

CALIFORNIA STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising

Advertising costs are expensed when the related liability is incurred. Advertising expense totaled \$52,982,897 for the year ended June 30, 2011.

Investment Earnings

Investment earnings are composed of unrealized gains or losses associated with the change in fair value of investments and interest income including interest accreted on investments. Unrealized gains and losses are generally not realized as the investments are held to satisfy annuitized prizes. As investments must be stated at fair value, investment earnings or losses are created as a result of the adjustment from carrying value to fair value. Generally, all cash is held on deposit with the California State Treasurer and is invested by that office in the Surplus Money Investment Fund. Interest on funds held by the State Treasurer is distributed quarterly.

Compensated Absences Payable

Vested vacation balances are accrued as a liability and adjusted quarterly.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Government Accounting Standards Board Statement No. 20 (GASB 20)

As required under GASB 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Lottery will continue to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBS) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The Lottery has elected under GASB 20 to not apply all FASB Statements and Interpretations issued after November 30, 1989, due to the governmental nature of the Lottery operations.

2. DEPOSITS AND INVESTMENTS

The Lottery presents its deposits and investments in accordance with GASB 40, *Deposit and Investment Risk Disclosures – An Amendment of GASB Statement No. 3*. This statement requires the disclosure of the following risks to the extent that they exist at the date of the statement of net assets:

Interest Rate Risk

Interest rate risk is the risk that the value of fixed income securities will decline due to changing interest rates. The prices of fixed income securities with longer time to maturity tend to be more sensitive to changes in interest rates than those with shorter durations.

Credit Risk

Credit risk is the risk that a debt issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline.

**CALIFORNIA STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2. DEPOSITS AND INVESTMENTS (continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event a financial institution or counterparty fails, the investor will not be able to recover the value of its deposits, investments, or collateral.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer.

Investments

The deposit and investment policies of the Lottery are determined by the Lottery Commission and state statute. Prize investments consist of zero coupon U.S. Treasury bonds, U.S. Treasury notes, zero coupon agency bonds and municipal bonds. Zero coupon U.S. Treasury bonds and zero coupon agency bonds are carried at fair value and are adjusted for the accretion of interest based on the purchased yield and maturity date. Municipal bonds and U.S. Treasury notes are carried at fair value, and interest is accrued based on the coupon rate.

As of June 30, 2011, the Lottery's investments, with yields ranging from 0.06 percent to 7.41 percent, consist of the following:

	<u>Face Amount</u>	<u>Cost</u>	<u>Fair Value</u>
Current portion:			
U.S. Treasury Notes	\$ 55,000,000	\$ 55,249,179	\$ 55,436,719
U.S. Treasury Strips	61,031,000	36,219,687	61,002,783
U.S. Agency Holdings	37,204,000	36,248,632	37,224,144
U.S. Municipal Bond Holdings	26,625,000	26,823,365	26,921,594
Total current portion	<u>\$ 179,860,000</u>	<u>\$ 154,540,863</u>	<u>\$ 180,585,240</u>
Long-term portion:			
U.S. Treasury Notes	\$ -	\$ -	\$ -
U.S. Treasury Strips	218,594,000	120,385,549	165,715,821
U.S. Agency Holdings	431,707,000	314,141,931	355,053,617
U.S. Municipal Bond Holdings	449,070,000	452,045,472	476,435,343
Total long-term portion	<u>\$ 1,099,371,000</u>	<u>\$ 886,572,952</u>	<u>\$ 997,204,781</u>
Total investments	<u>\$ 1,279,231,000</u>	<u>\$ 1,041,113,815</u>	<u>\$ 1,177,790,021</u>

**CALIFORNIA STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2. DEPOSITS AND INVESTMENTS (continued)

Investments (continued)

As discussed in Note 1, the Lottery applies the provisions of GASB 31. In accordance with GASB 31, the Lottery carries its investments at fair value. The fair value of investments is based on published market prices and quotations from an independent pricing vendor. The following represents the changes in fair value of investments for the year ended June 30, 2011, in accordance with the requirements of GASB 31.

Changes in fair value of investments:	
Unrealized investment gains at July 1, 2010	\$ 57,046,457
Unrealized investment loss, current period	(3,314,895)
Total unrealized investment gains	<u>\$ 53,731,562</u>

On January 28, 2009, the Lottery Commission approved an amendment to the Lottery's investment policy that allowed for the restructuring of its investment portfolio to maximize the investment return. Prior to this, the Lottery's policy limited investments to U.S. Treasury zero coupon bonds. The amendment authorizes the Lottery to sell its previously held U.S. Treasury zero coupon bonds and replace them with municipal and agency bonds, as well as with other U.S. Treasuries. The Lottery conducted an investment portfolio restructuring program from May 2009 through June 2010. By replacing U.S. Treasury zero coupon bonds with higher yielding investments the Lottery generated cash proceeds that were used to further the Lottery's directives.

As a result of the restructuring transactions, the interest imputed on prize liability will no longer equal the interest earned on the restructured investment portfolio. The difference will be reported in the statement of revenues, expenses and changes in net assets and result in an adjustment to net assets restricted by legislation. As the realized and unrealized investment gain and loss activity relates to investments that must be held to satisfy prize liabilities, they are deemed statutorily restricted and therefore reported as restricted by legislation.

Interest Rate Risk – Investments

The Lottery does not have a specific policy to manage interest rate risk, as investments are purchased to mirror the payment stream of recorded prize liability. The Lottery's investments have weighted average maturities based on the final maturity dates of all investments as follows:

U.S. Treasury Notes	0.61 years
U.S. Treasury Strips	4.77 years
U.S. Agency Holdings	4.86 years
U.S. Municipal Bond Holdings	8.40 years
Surplus Money Investment Fund	0.65 years

Credit Risk and Concentration of Credit Risk - Investments

The Lottery has adopted a specific policy to manage credit risk in the Lottery's investment portfolio. The zero coupon U.S. Treasury bonds and U.S. Treasury bills are backed by the full faith and credit of the United States government. Therefore, the U.S. Treasury obligation investments are not considered to have credit risk or a concentration of credit risk, as defined by the Governmental Accounting Standards Board. The Lottery's policy to manage credit risk requires municipal bonds to have a minimum double A credit rating by Fitch, Moody's or Standard and Poor's to be eligible for purchase as part of the Lottery's investment portfolio. Agency bonds have a triple A credit rating and the Surplus Money Investment Fund is not rated at June 30, 2011. Credit risk is further mitigated by a \$2.7 million par value agency bond reserve. The bond reserve has a fair value of \$1,453,767.

**CALIFORNIA STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2. DEPOSITS AND INVESTMENTS (continued)

Investments (continued)

As of June 30, 2011, the fair value of the Lottery's investment portfolio expressed as a percentage of Moody's credit rating categories was as follows:

Moody's Credit Rating	Fair Value	Percent of Total Portfolio
Aaa	\$ 692,396,359	58.79 %
Aa1	135,898,417	11.54 %
Aa2	97,790,218	8.30 %
Aa3	5,397,525	0.46 %
A1	246,307,502	20.91%
Totals	<u>\$ 1,177,790,021</u>	<u>100.00 %</u>

The following table provides information about the Lottery's concentration of credit risk. It shows investments by any one issuer representing 5 percent or more of the Lottery's total portfolio, and not explicitly guaranteed by the U.S. government.

Issuer	Cost	Fair Value	Percent of Total Portfolio	Moody's Credit Rating
State of California	\$ 214,828,217	\$ 226,926,096	19.27 %	A1
Commonwealth of Massachusetts	\$ 62,546,830	\$ 62,771,770	5.33 %	Aa1

Custodial Credit Risk – Investments

The Lottery does not have a formal investment policy for custodial credit risk for investments. As of June 30, 2011, all the prize investments are uninsured, registered investments held in book-entry form by the State Treasurer's Office in a master custody account with Citibank, N.A.

Deposits

The following deposits, included in cash and cash equivalents, are in pools managed by other State of California government units and are not evidenced by securities. Interest income earned on outstanding cash balances is allocated among pool participants based on average daily cash balances. As of June 30, 2011, the carrying value of deposits in the Surplus Money Investment Fund approximated fair value.

State Treasury	\$ 11,681,986
Surplus Money Investment Fund	<u>267,479,000</u>
	<u>\$ 279,160,986</u>

The SMIF consists of available cash of all special funds of the State of California which do not have investment authority of their own. Cash balances in excess of needs in any of these participating funds are invested by the State Treasurer. The Pooled Money Investment Board (PMIB) provides regulatory oversight over the State Treasurer's pooled investment program and is responsible for determining whether any cash balances of the participating funds are in excess of current needs and available for investment, or whether it is necessary to liquidate previous investments to meet current requirements. The PMIB is composed of the State Treasurer, as chairman; the State Controller; and the Director of Finance for the State of California.

**CALIFORNIA STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

2. DEPOSITS AND INVESTMENTS (continued)

Deposits (continued)

All of the resources of the SMIF are invested through the Pooled Money Investment Account (PMIA). By law, PMIA monies can be invested only in the following categories: U.S. Government securities; securities of federally-sponsored agencies; domestic corporate bonds; interest-bearing time deposits in California banks, savings and loan associations, and credit unions; prime-rated commercial paper; repurchase and reverse repurchase agreements; security loans; banker's acceptances; negotiable certificates of deposit; and loans to various bond funds.

At June 30, 2011, the allocation of the deposits held by the Lottery in the SMIF was estimated as follows:

	Lottery's Share of SMIF
U.S. Treasury Securities	\$ 143,235,809
Federal Agency Debt	23,505,198
IBRD Bonds	1,209,349
Bank Notes	2,217,140
Certificates of Deposit	29,750,537
Commercial Paper	30,152,035
Time Deposits	15,996,226
AB 55 and General Fund Loans	21,412,706
Total	\$ 267,479,000

The value of the deposits in the State Treasurer's pooled investment program, including the SMIF, is equal to the dollars deposited in the program. The fair value of the position in the program may be greater or less than the value of the deposits, with the difference representing the unrealized gain or loss. As of June 30, 2011, this difference was immaterial to the valuation of the deposits held by the Lottery in the SMIF.

The Lottery's share in the interest earnings of the PMIA is based on its ratio of dollar-day contributions to the total dollar-day investments of the PMIA. The overall return on investment for the PMIA was 0.50 percent for the year ended June 30, 2011.

3. ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

Amounts due, primarily from retailers	\$ 322,246,033
Less: Allowance for free ticket redemption	(33,308,522)
Allowance for doubtful accounts	(2,916,281)
Allowance for ticket returns	(23,510,275)
Accounts receivable, net	\$ 262,510,955

4. DUE FROM STATE FUNDS

Due from state funds consists of interest income due on cash deposited with the State Treasurer in the Surplus Money Investment Fund.

CALIFORNIA STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

5. CAPITAL ASSETS

Capital assets consist of the following:

	Beginning Balance	Increase	Decrease	Ending Balance
Non-depreciable capital assets:				
Land	\$ 6,469,219	\$ -	\$ -	\$ 6,469,219
Depreciable capital assets:				
Gaming equipment	17,813,582	52,022	(3,278,531)	14,587,073
Vending machines	34,243,343	-	-	34,243,343
Buildings	24,082,716	41,679,994	-	65,762,710
Data processing equipment	9,019,032	4,485,569	(136,209)	13,368,392
Office furniture and equipment	8,468,599	3,917,806	(36,158)	12,350,247
Leasehold improvements	810,558	-	-	810,558
Other	6,725,850	-	-	6,725,850
	<u>\$ 107,632,899</u>	<u>\$ 50,135,391</u>	<u>\$ (3,450,898)</u>	<u>\$ 154,317,392</u>
Less accumulated depreciation and amortization:				
Gaming equipment	\$ (11,448,225)	\$ (2,500,734)	\$ 3,278,531	\$ (10,670,428)
Vending machines	(33,386,304)	(857,039)	-	(34,243,343)
Buildings	(830,067)	(627,721)	-	(1,457,788)
Data processing equipment	(8,670,681)	(346,662)	136,209	(8,881,134)
Office furniture and equipment	(6,960,346)	(771,025)	6,300	(7,725,071)
Leasehold improvements	(487,209)	(79,619)	-	(566,828)
Other	(3,338,741)	(928,458)	-	(4,267,199)
	<u>\$ (65,121,573)</u>	<u>\$ (6,111,258)</u>	<u>\$ 3,421,040</u>	<u>\$ (67,811,791)</u>
Capital assets, net	<u>\$ 42,511,326</u>	<u>\$ 44,024,133</u>	<u>\$ (29,858)</u>	<u>\$ 86,505,601</u>

The increase in accumulated depreciation and amortization of capital assets charged to income was \$6,111,258 for the year ended June 30, 2011. The Lottery recognized a reduction to depreciation expense due to the reversal of an over-accrual related to the write-off of equipment. The increase in accumulated depreciation and amortization plus the reversal of the accrual account for the depreciation and amortization expense of \$5,874,683 reported on the Statement of Revenues, Expenses and Changes in Net Assets.

CALIFORNIA STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

6. PRIZE LIABILITY

Prize liability consists of the following:

	<u>Scratchers Games</u>	<u>Draw Games</u>	<u>Total</u>
Current:			
Annuitized prizes	\$ 16,971,077	\$ 245,975,392	\$ 262,946,469
Other prizes	<u>181,268,994</u>	<u>21,477,774</u>	<u>202,746,768</u>
Total current prize liability	<u>\$ 198,240,071</u>	<u>\$ 267,453,166</u>	<u>\$ 465,693,237</u>
Long-term annuitized prizes	\$ 145,550,000	\$ 1,136,078,000	\$ 1,281,628,000
Less imputed interest	<u>(43,147,205)</u>	<u>(352,471,954)</u>	<u>(395,619,159)</u>
Net present value of long-term prizes	<u>\$ 102,402,795</u>	<u>\$ 783,606,046</u>	<u>\$ 886,008,841</u>
Total prize liability	<u>\$ 300,642,866</u>	<u>\$ 1,051,059,212</u>	<u>\$ 1,351,702,078</u>

The amount of prizes due within one year is \$465,693,237.

Long-term prize liability as of June 30, 2011, for each of the next five years and for subsequent years is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
For the year ending June 30, 2013	\$ 70,960,000	\$ 90,042,630	\$ 161,002,630
2014	61,474,176	71,201,366	132,675,542
2015	51,675,768	51,232,029	102,907,797
2016	41,599,487	34,753,646	76,353,133
2017	32,489,595	20,745,567	53,235,162
2018-2022	123,038,013	65,986,287	189,024,300
2023-2027	86,211,482	40,397,834	126,609,316
2028-2032	32,449,080	7,669,815	40,118,895
2033-2036	<u>3,895,037</u>	<u>187,029</u>	<u>4,082,066</u>
Total long-term prize liability	<u>\$ 503,792,638</u>	<u>\$ 382,216,203</u>	<u>\$ 886,008,841</u>

Activity in the prize liability accounts consists of:

Balance, July 1, 2010	\$ 1,464,848,704
Prize expense	1,904,787,955
Prize payments	(2,200,194,964)
Grand/Jackpot prize contributions from other Party Lotteries	138,439,310
Interest imputed on annuities	66,902,935
Cash option adjustment	2,608,615
Unclaimed prizes	<u>(25,690,477)</u>
Balance, June 30, 2011	<u>\$ 1,351,702,078</u>

**CALIFORNIA STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

7. DUE TO STATE FUNDS

Due to state funds consists of the following:

Due to Education Fund	\$ 276,999,206
Due to other state funds	<u>176,763</u>
Total due to state funds	<u>\$ 277,175,969</u>

Activity in the Due to Education Fund account consists of:

Balance, July 1, 2010	\$ 266,528,409
Allocation to Education Fund, earned by the California State Lottery Fund	\$ 1,102,860,768
Unclaimed prizes directly allocated to the Education Fund	<u>25,690,477</u>
	1,128,551,245
Distribution to the Education Fund	<u>(1,118,080,448)</u>
Balance, June 30, 2011	<u>\$ 276,999,206</u>

8. LEASES

The Lottery leases office, warehouse, and parking lot facilities under operating leases. These leases expire in various years through September 30, 2017. Most operating leases have a provision for early termination. These leases could be terminated between September 2011 and September 2017.

The future minimum lease payments under operating leases as of June 30, 2011, are as follows:

	Operating Leases
For the year ending June 30, 2012	\$ 1,317,083
2013	1,165,149
2014	951,558
2015	842,808
2016	603,464
Thereafter	<u>653,019</u>
Total minimum payments	<u>\$ 5,533,081</u>

Rental expense for all operating leases totaled \$1,638,342 for the year ended June 30, 2011.

**CALIFORNIA STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

9. INVESTMENT EARNINGS

Investment earnings consist of:

Interest on funds held by State Treasurer	\$ 1,976,999
Change in Fair Market Value of Investments	(3,314,895)
Interest accreted/earned on investments	47,384,134
Total investment earnings	\$ 46,046,238

10. RETIREMENT PLAN AND OTHER POSTEMPLOYMENT BENEFITS

Retirement Plan

The Lottery contributes to the Public Employees' Retirement Fund administered by the California Public Employees' Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. The State of California (State) is considered the employer and the Lottery is a department of the State. CalPERS provides retirement benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State and uses the accrual basis of accounting. Benefit provisions and all other requirements are established by state statute. Since all state agencies are considered collectively to be a single employer, the actuarial present value of vested and non-vested accumulated plan benefits attributable to the Lottery's employees cannot be determined. Similarly, the net assets available for benefits of Lottery employees cannot be determined. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. CalPERS' annual financial report may be obtained by writing to the California Public Employees' Retirement System, Fiscal Services Division, P.O. Box 942703, Sacramento, California 94229 or by visiting the CalPERS web site at www.CalPERS.ca.gov.

Generally, full-time employees are eligible to participate as members of CalPERS and are eligible to retire at age 50 with at least five years of service or age 55 with at least ten years of service depending on the plan selected by the employee. Annual retirement benefits are determined based on age at retirement, the length of membership service, and the amount of earnings based on the highest or last 12 or 36 consecutive months' average. Health care and dental benefits may be provided to members depending on the date hired and the years of credited service of a member. If members are not fully vested, the health care and dental contributions will be prorated based on the years of service.

Active plan members are required to contribute a percentage of their salary depending on their plan selection and employment classification. Employees' required contributions vary from 0.0% to 8.0%. The Lottery is required to contribute at an actuarially determined rate. The Lottery's contributions are based on a percentage of annual covered payroll depending on the plan selected and member status. For the year ended June 30, 2011, the Lottery's payroll for employees covered by CalPERS was approximately \$29.7 million and the total payroll for the period was approximately \$30.7 million. The contribution requirements of plan members and the Lottery are established and may be amended by CalPERS. Required employer contribution rates (expressed as a percentage of compensation) as of January 2011 for the remainder of the 2010/2011 fiscal year are as follows:

State Miscellaneous Member First Tier	17.528%
State Miscellaneous Member Second Tier	16.442%
State Safety Member	15.702%
Peace Officer	28.556%

**CALIFORNIA STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

10. RETIREMENT PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Retirement Plan (continued)

The Lottery's pension cost for the year ended June 30, 2011, was equal to the Lottery's required contributions which were determined as part of the most recent actuarial valuation performed by CalPERS dated June 30, 2009.

Three year trend information for the Lottery:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage Of APC Contributed	Net Pension Obligation
6/30/09	\$4,776,155	100%	\$0
6/30/10	\$4,479,257	100%	\$0
6/30/11	\$5,426,592	100%	\$0

Other Postemployment Benefits

Post-retirement health care benefits are also provided to Lottery employees through the programs sponsored by the State as administered by CalPERS and the Department of Personnel Administration (DPA). As the post-retirement health care plan is sponsored by the State it is considered a single-employer plan. The Lottery is considered a department of the State. The total other postemployment benefits (OPEB) actuarial accrued liability is reported at the State level.

Health care and dental benefits may be provided to members depending on the date hired and the member's years of credited service. Post-retirement health benefits include medical, prescription drug and dental benefits and are currently funded on a pay-as-you-go basis. Employer contributions for health premiums during the 2010/2011 fiscal year maintained the 100/90 percent contribution formula established by Government Code. Under this formula, the State uses 100 percent of the weighted average premiums of the four largest health benefit plans in order to calculate the maximum amount the State will contribute toward the retiree's health benefits. The State also contributes 90 percent of this average for the health benefits of each of the retiree's dependents. The retiree is responsible for paying all health benefit plan costs that exceed the average of the four largest benefit plans. The monthly contribution maximums are \$542 for a single enrollee, \$1,030 for an enrollee and one dependent, and \$1,326 for an enrollee and two or more dependents. Dental care premiums vary by plan and number of dependents. The contribution formulas are subject to approval and amendment by the legislature of the State. If members are not fully vested, the health care and dental contributions will be prorated based on the years of service.

The Lottery paid approximately \$2.8 million for post-retirement health and dental benefits for retired members for the year ended June 30, 2011. The Lottery adopted GASB 45 during the 2007/2008 fiscal year. GASB 45 was implemented prospectively and the Lottery had a zero net OPEB obligation (NOO) upon adoption. The Lottery's annual OPEB cost (AOC) is calculated based on the annual required contribution (ARC). The AOC recorded by the Lottery is calculated by the primary government and represents an allocation of the total ARC of the State, adjusted for interest and other adjustments. The allocation is based on the Lottery's retiree health benefit costs in relation to the total State retiree health benefit costs. The ARC represents the normal cost plus an amortization of the difference between the actuarial accrued liability and any assets available to pay benefits. The AOC for the year ended June 30, 2011, was \$8,827,000. The total NOO liability recorded as of June 30, 2011, is \$20,408,000. The following table shows the components of the Lottery's AOC, the amount actually contributed to the plan and the NOO as of and for the year ended June 30, 2011 and the previous fiscal year (in thousands).

**CALIFORNIA STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

10. RETIREMENT PLAN AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Other Postemployment Benefits (continued)

Net OPEB obligation (NOO), July 1, 2009	\$ 9,674
Fund allocated annual OPEB cost (AOC)	7,814
Fund allocated contributions	<u>(2,668)</u>
Net OPEB obligation (NOO), June 30, 2010	14,820
Fund allocated annual OPEB cost (AOC)	8,827
Fund allocated contributions	<u>(3,239)</u>
Net OPEB obligation (NOO), June 30, 2011	<u><u>\$ 20,408</u></u>

The actuarial valuation report for OPEB may be obtained by writing to the Office of State Controller John Chiang, P.O. Box 942850, Sacramento, CA 94250 or by visiting the State Controller's Web site at www.SCO.ca.gov. The Lottery's ARC, AOC and NOO will be calculated and adjusted for on an annual basis.

11. STATUTORY COMPLIANCE (Unaudited)

As discussed in Note 1, on April 8, 2010, the Governor signed Assembly Bill (AB) 142 amending the Lottery Act to allow the Lottery to increase the prize payout percentage of its games. Under AB 142, the Lottery is required to return not less than 87 percent of revenues to the public in the form of prizes and contributions to education, and to spend no more than 13 percent of revenues on operating expenses of the Lottery.

Lottery prize payments, contributions to education and operating expenses are shown below as a percentage of operating revenue for the year ended June 30, 2011.

Lottery Sales	\$ 3,438,577,998	100.00%
Revenue returned to the public		
Prizes	\$ 1,904,787,955	55.39%
Operating income to education	<u>1,100,861,893</u>	<u>32.02%</u>
Total revenue returned to the public	<u>\$ 3,005,649,848</u>	<u>87.41%</u>
Expenses of the Lottery		
Retailer costs	\$ 233,571,290	6.79%
Game costs	56,133,448	1.63%
Operating expenses	143,268,012	4.17%
Less bartered operating expenses	<u>(44,600)</u>	<u>0.00%</u>
Total expenses of the Lottery	<u>\$ 432,928,150</u>	<u>12.59%</u>

CALIFORNIA STATE LOTTERY FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

11. STATUTORY COMPLIANCE (Unaudited, continued)

A summary of the total funds transferred by the Lottery to the education community for the fiscal year ended June 30, 2011, is shown below.

Revenues to Education	
Allocation of sales - operating income	\$ 1,100,861,893
Unclaimed prizes directly allocated to the Education Fund	25,690,477
Interest income	1,976,999
Other income	66,476
Less bartered income	<u>(44,600)</u>
Total declared for allocation to the Education Fund	<u>\$ 1,128,551,245</u>

12. COMMITMENTS AND CONTINGENCIES

A contract has been awarded to GTECH that includes both gaming and telecommunication systems and services. The Lottery pays a fee of 1.36 percent of sales. The original contract ran through October 13, 2009, and had a total estimated cost of \$300 million. A series of contract extensions were awarded. The latest, signed by the Director in June 2010, extends the contract to October 13, 2019, and includes a complete upgrade of the gaming system. The total contract expenditure is not to exceed \$1.075 billion. Approximately \$402 million in fees have been incurred under the contract as of June 30, 2011.

On June 26, 2009, the Lottery Commission awarded a contract to Otto Construction for pre-construction services and construction of a new Lottery Headquarters building. The estimated construction costs, including demolition, pre-construction services, green building elements and modular furniture, are \$53.8 million. Additionally, estimated contingency and escalation allowances are \$6.8 million and \$3.2 million, respectively. Costs incurred on the contract as of June 30, 2011, were approximately \$56.3 million. Lottery staff moved into the new building in July 2011.

The Lottery has been named as a defendant in various lawsuits and claims. Legal counsel has determined that it is probable that one of these lawsuits may be settled in favor of the plaintiffs. As a result, a legal contingency of \$8.6 million has been recorded as of June 30, 2011.

13. RISK MANAGEMENT

Since its inception, the Lottery has been primarily self-insured for risks such as flood, business interruption, theft, employee errors and omissions, and other potential liabilities. Losses are recognized when conditions for accrual are met. Liabilities for workers' compensation costs are accrued based on estimates derived from the State Compensation Insurance Fund. This estimate is based on actuarial reviews of the employee workers' compensation program and includes indemnity payments, compensation benefits, and leave benefits. The liability for workers' compensation claims is not material to the financial statements taken as a whole.

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STATISTICAL SECTION



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STATISTICAL SECTION

This part of the California State Lottery’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and note disclosures says about the Lottery’s overall financial health.

Contents

Financial Trends/Revenue Capacity.....	48
These schedules contain trend information to help the reader understand how the financial performance and well-being have changed over time and how to assess the Lottery’s most significant revenue sources, lotto and instant ticket games.	
Demographic and Economic Information.....	52
These schedules offer demographic and economic indicators to help the reader understand the environment within which the Lottery’s financial activities take place.	
Operating Information.....	60
These schedules contain data to help the reader understand how the information in the Lottery’s financial report relates to the products the Lottery provides and the activities it performs.	

CALIFORNIA STATE LOTTERY
Net Assets by Component
Last Ten Fiscal Years

	2002	2003	2004	2005
Invested in capital assets	35,352,134	43,863,510	38,071,794	40,968,035
Restricted by legislation	317,115,490	462,001,089	257,765,065	275,906,630
Unrestricted (deficit)	(35,352,134)	(43,863,510)	(38,071,794)	(40,968,035)
Total net assets	317,115,490	462,001,089	257,765,065	275,906,630

CALIFORNIA STATE LOTTERY
Change in Net Assets
Last Ten Fiscal Years

	2002	2003	2004	2005
Operating revenues:				
Lotto games	1,275,714,605	1,110,682,365	1,166,953,613	1,109,931,087
Scratchers [®] games	1,184,119,073	1,211,719,532	1,338,975,654	1,736,788,110
Hot Spot [®]	184,432,561	180,160,160	167,989,890	174,296,572
Daily games	252,106,294	279,007,799	300,056,560	312,604,900
Raffle	-	-	-	-
Total operating revenues	2,896,372,533	2,781,569,856	2,973,975,717	3,333,620,669
Prizes	1,502,966,618	1,451,804,079	1,566,027,494	1,795,254,439
Game costs:				
Retailer costs	198,064,491	189,814,979	205,744,975	233,447,844
Draw game costs	47,250,757	45,914,606	37,369,964	35,702,574
Scratchers game costs	32,878,258	32,317,240	20,940,277	21,042,547
Total game costs	278,193,506	268,046,825	264,055,216	290,192,965
Operating expenses:				
Salaries, wages and benefits	36,902,774	36,652,764	40,759,704	41,913,096
Advertising	30,421,150	26,385,118	30,972,632	36,797,516
Promotion, public relations and point of sale	11,234,301	7,234,777	9,066,450	10,406,811
Other professional services	8,110,006	6,771,068	7,568,645	5,380,499
Depreciation and amortization	7,972,377	8,069,014	8,396,577	7,202,654
Other general and administrative expenses	10,063,631	9,182,707	10,002,122	8,546,322
Total operating expenses	104,704,239	94,295,448	106,766,130	110,246,898
Operating income	1,010,508,170	967,423,504	1,037,126,877	1,137,926,367
Non-operating (expenses) revenues:				
Investment earnings ¹	69,441,118	154,251,249	(197,547,422)	28,018,810
Other income	455,493	208,850	246,224	971,475
Allocation to Education Fund ²	(1,027,185,343)	(976,998,004)	(1,044,061,703)	(1,148,775,087)
Total non-operating (expenses) revenues	(957,288,732)	(822,537,905)	(1,241,362,901)	(1,119,784,802)
Total change in net assets	53,219,438	144,885,599	(204,236,024)	18,141,565

Note: Individual wagers for all Lotto games, Hot Spot and all daily games, with the exception of Daily Derby[®], are \$1 each. Daily Derby wagers are \$2 each. In fiscal year 2006/2007 raffle numbers were \$5 each, or \$4 each for tickets with 5 or more raffle numbers. In fiscal year 2007/2008 raffle numbers were \$5 each. Scratchers games have price points of \$1, \$2, \$3 and \$5.

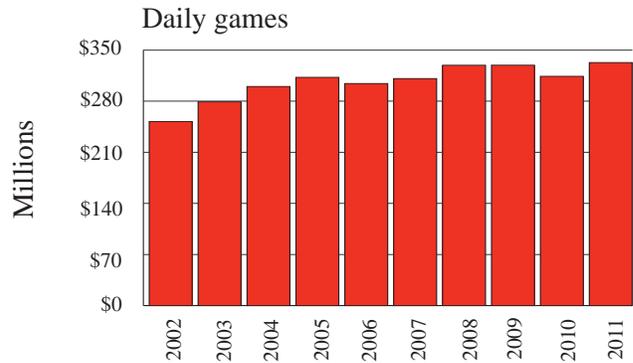
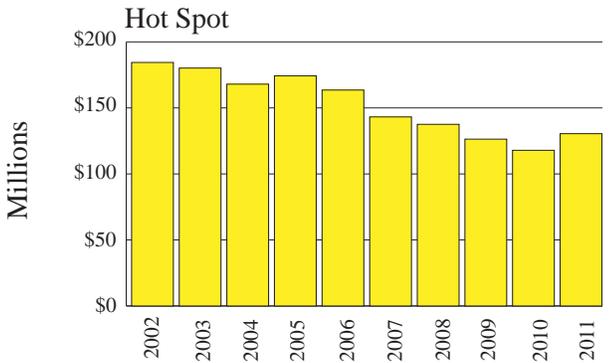
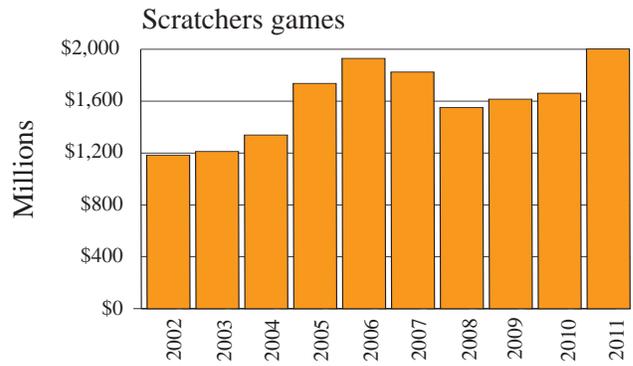
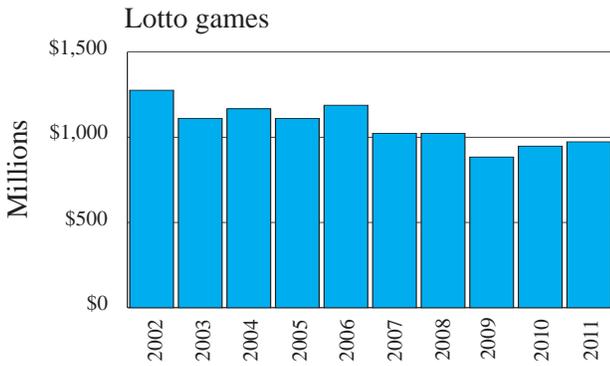
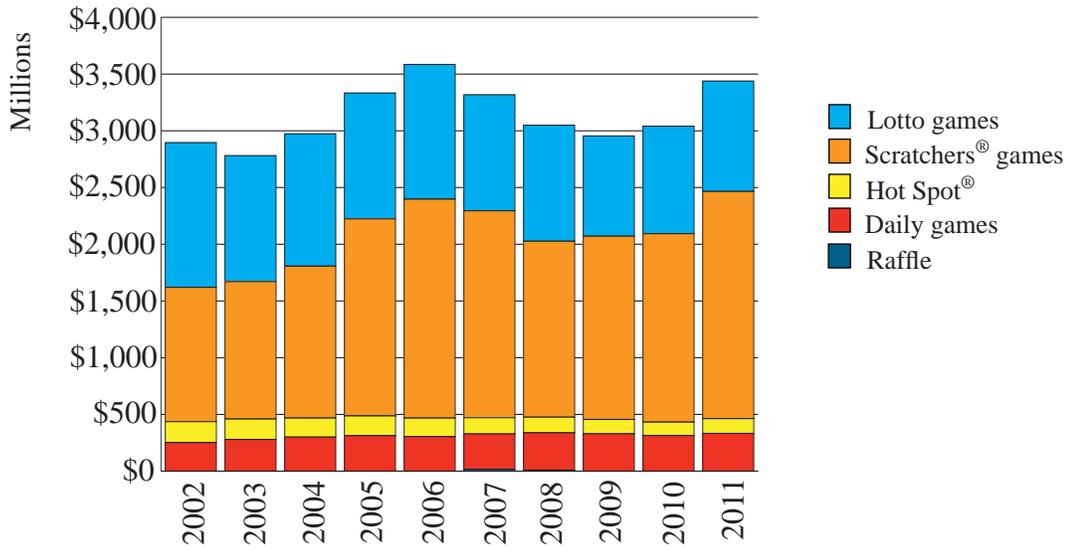
(1) Investment earnings include interest expense imputed on annuitized prize liability.

(2) The total declared allocation to Education Fund, per statutory compliance, also includes unclaimed prizes and is not represented in the presentation above. For more information on the total allocation to Education Fund, please refer to Note 11 of the financial statements.

2006	2007	2008	2009	2010	2011
42,926,882	50,203,022	50,476,492	45,366,173	42,511,326	86,505,601
104,231,017	95,315,400	165,083,079	147,038,053	125,850,167	103,016,471
(42,926,882)	(50,203,022)	(50,476,492)	(45,366,173)	(42,511,326)	(86,505,601)
104,231,017	95,315,400	165,083,079	147,038,053	125,850,167	103,016,471

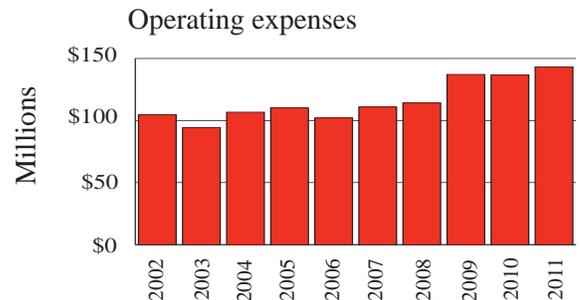
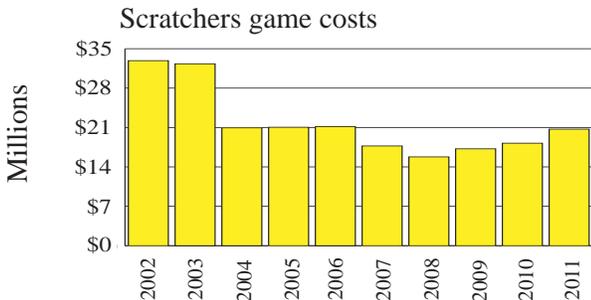
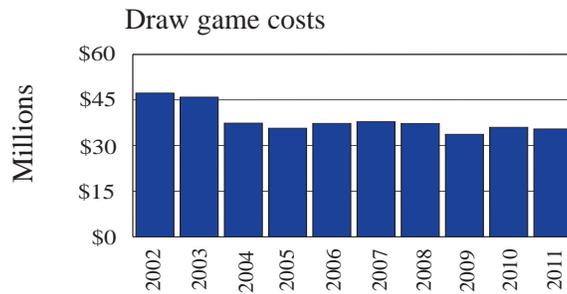
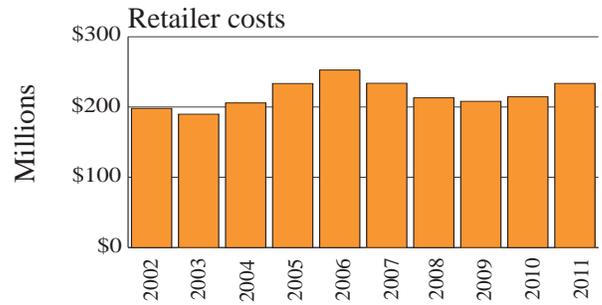
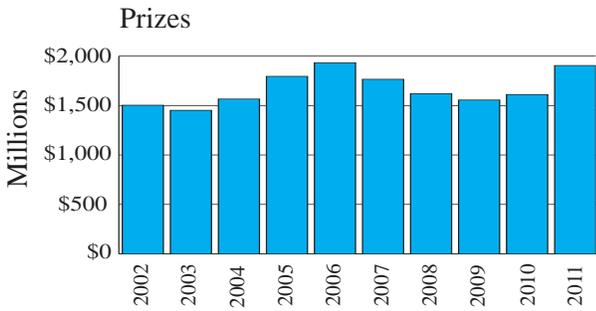
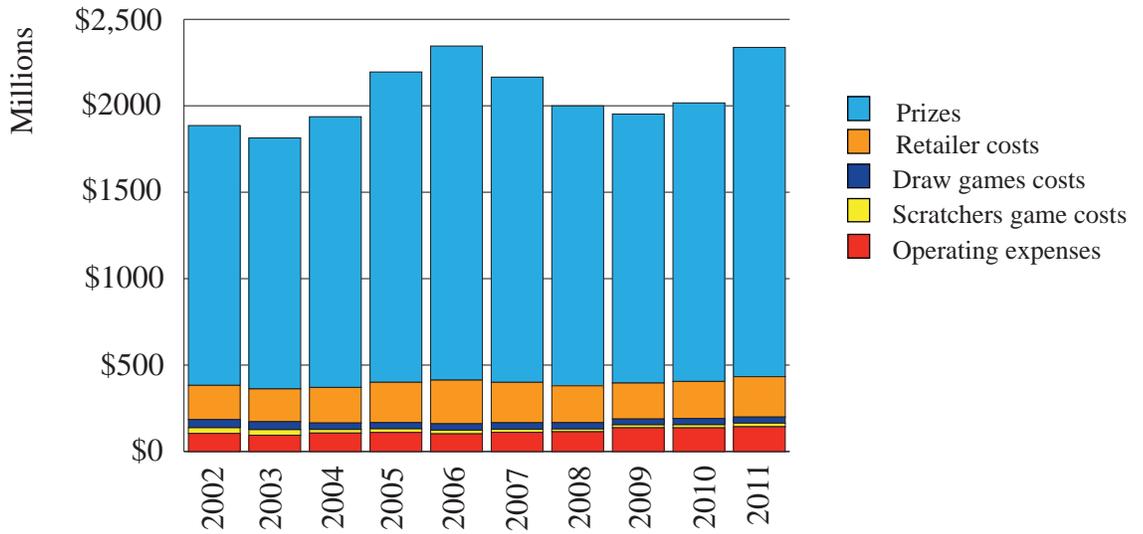
2006	2007	2008	2009	2010	2011
1,187,725,049	1,023,039,079	1,022,867,234	883,844,967	947,769,847	973,179,589
1,929,632,771	1,824,355,512	1,551,048,845	1,615,369,207	1,661,288,086	2,002,090,072
163,526,309	143,182,870	137,582,868	126,361,926	117,904,491	130,472,138
304,112,122	310,903,219	329,171,866	329,262,994	313,997,442	332,836,199
-	16,865,825	8,950,102	-	-	-
3,584,996,251	3,318,346,505	3,049,620,915	2,954,839,094	3,040,959,866	3,438,577,998
1,932,721,443	1,765,643,368	1,619,473,498	1,556,120,634	1,611,371,074	1,904,787,955
252,543,062	233,792,642	213,022,175	208,105,703	214,484,059	233,571,290
37,277,061	37,820,168	37,250,758	33,687,063	35,984,278	35,428,111
21,144,506	17,725,019	15,780,718	17,217,368	18,214,865	20,705,337
310,964,629	289,337,829	266,053,651	259,010,134	268,683,202	289,704,738
41,201,111	42,224,625	48,431,055	49,167,678	46,011,332	52,084,571
25,495,083	33,337,617	26,790,304	42,184,700	33,666,684	52,982,897
9,307,150	8,894,469	9,035,786	14,064,197	8,025,477	6,635,267
5,959,870	5,660,943	7,703,086	7,449,016	10,341,565	10,677,764
8,745,427	9,099,711	9,069,714	12,965,067	20,417,236	5,874,683
11,389,574	11,715,254	13,161,713	11,349,775	18,277,779	15,012,830
102,098,215	110,932,619	114,191,658	137,180,433	136,740,073	143,268,012
1,239,211,964	1,152,432,689	1,049,902,108	1,002,527,893	1,024,165,517	1,100,817,293
(153,232,777)	14,381,282	88,343,337	6,747,951	26,795,655	(20,856,697)
853,117	1,199,529	850,326	408,089	347,694	66,476
(1,258,507,917)	(1,176,929,117)	(1,069,328,092)	(1,027,728,959)	(1,072,496,752)	(1,102,860,768)
(1,410,887,577)	(1,161,348,306)	(980,134,429)	(1,020,572,919)	(1,045,353,403)	(1,123,650,989)
(171,675,613)	(8,915,617)	69,767,679	(18,045,026)	(21,187,886)	(22,833,696)

CALIFORNIA STATE LOTTERY
Sales by Product
Last Ten Fiscal Years



Note: The first "Million Dollar Raffle" game was held in fiscal year 2006/2007. Raffle tickets were available for sale between February 5, 2007 and March 17, 2007. The "New Year's Million Dollar Raffle" tickets were on sale November 19, 2007 - December 30, 2007.

CALIFORNIA STATE LOTTERY
Expenses by Type
Last Ten Fiscal Years



CALIFORNIA STATE LOTTERY
California Demographics and Economic Information
2001 - 2010

	Population (in thousands)	Personal Income (in millions)	Per Capita Personal Income	Unemployment Rate*
2001	34,507	\$1,168,733	\$33,869	5.4%
2002	34,916	\$1,187,360	\$34,006	6.7%
2003	35,307	\$1,232,991	\$34,922	6.8%
2004	35,630	\$1,312,244	\$36,830	6.2%
2005	35,885	\$1,387,682	\$38,670	5.4%
2006	36,121	\$1,495,560	\$41,404	4.9%
2007	36,378	\$1,572,271	\$43,221	5.4%
2008	36,757	\$1,604,113	\$43,641	7.2%
2009	36,962	\$1,572,650	\$42,548	12.0%
2010	37,349	\$1,590,279	\$42,578	12.4%

Source: Bureau of Economic Analysis, United States Department of Commerce

* Data source: from Labor Market Information Division, California Employment Development Department

Note: 2011 information is not available and therefore not presented.

CALIFORNIA STATE LOTTERY
California Industry Number of Employees By Size Category
2002 - 2006

	2002	2003	2004	2005	2006
Agriculture, Forestry, Fishing, Hunting	451,089	437,529	419,185	428,846	437,617
Mining	20,788	20,127	21,144	22,564	24,723
Utilities	54,889	55,650	55,908	56,204	56,978
Construction	790,744	808,418	881,632	944,060	957,256
Manufacturing	1,636,671	1,532,508	1,535,551	1,513,778	1,512,772
Wholesale Trade	649,120	647,781	652,097	677,489	706,834
Retail Trade	1,551,883	1,581,467	1,607,565	1,657,726	1,672,636
Transportation and Warehousing	423,262	408,552	414,976	417,462	425,350
Information	483,677	458,816	471,693	470,521	467,757
Finance and Insurance	580,217	615,109	621,023	645,955	641,764
Real Estate and Rental and Leasing	272,063	275,936	279,684	287,313	291,700
Services	5,640,072	5,701,711	5,748,117	5,903,101	6,077,509
Nonclassifiable Establishments	44,349	54,437	70,831	82,713	29,514
Federal, State and Local Government	2,337,757	2,297,220	2,296,591	2,326,568	2,336,653
Total for All Industries	14,936,581	14,895,261	15,075,997	15,434,300	15,639,063

CALIFORNIA STATE LOTTERY
California Industry Number of Employees By Size Category
2007 - 2010

	2007	2008	2009	2010
Agriculture, Forestry, Fishing, Hunting	444,478	459,723	434,275	440,265
Mining	25,282	26,698	23,244	25,011
Utilities	58,276	58,575	60,288	57,175
Construction	900,386	782,432	601,982	562,922
Manufacturing	1,464,136	1,425,225	1,261,582	1,250,589
Wholesale Trade	719,608	705,036	636,330	647,193
Retail Trade	1,673,198	1,615,574	1,495,711	1,496,821
Transportation and Warehousing	434,105	432,622	396,512	397,932
Information	476,419	472,152	436,865	429,065
Finance and Insurance	607,118	563,136	528,813	509,852
Real Estate and Rental and Leasing	282,800	274,778	250,908	248,452
Services	6,200,250	6,232,695	5,947,240	6,063,638
Nonclassifiable Establishments	56,682	73,151	72,563	44,336
Federal, State and Local Government	2,404,511	2,405,547	2,352,014	2,302,160
Total for All Industries	15,747,249	15,527,344	14,498,327	14,475,411

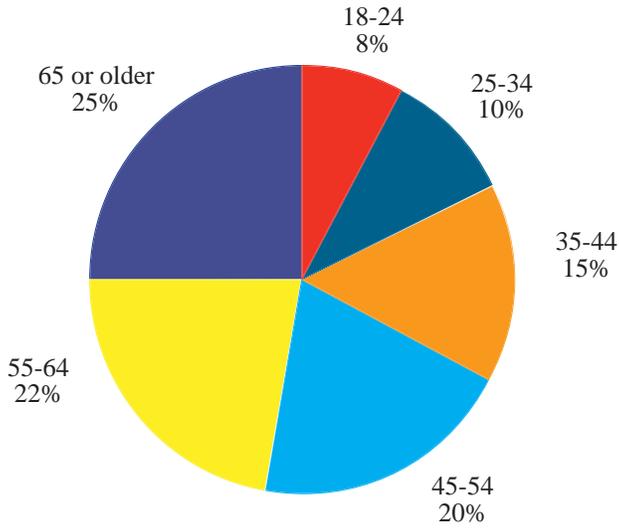
Source: California Employment Development Department

Note: Businesses are designated as "Nonclassifiable Establishments" when there is insufficient information to determine the appropriate industry classification. Definitions of Terms and Source Notes www.labormarketinfo.edd.ca.gov/?pageid=1035

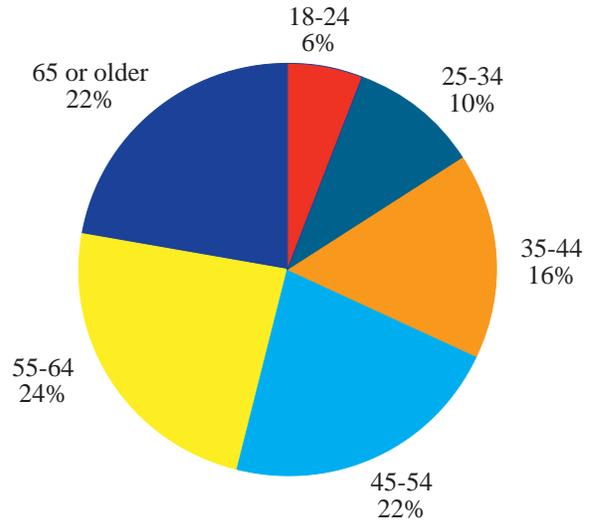
The industry data provided are intended to provide similar alternative information regarding the concentration of employment in various sectors of the California economy. Due to confidentiality issues, the names of the top individual employers are not available.

CALIFORNIA STATE LOTTERY
California Demographics for Population and Players

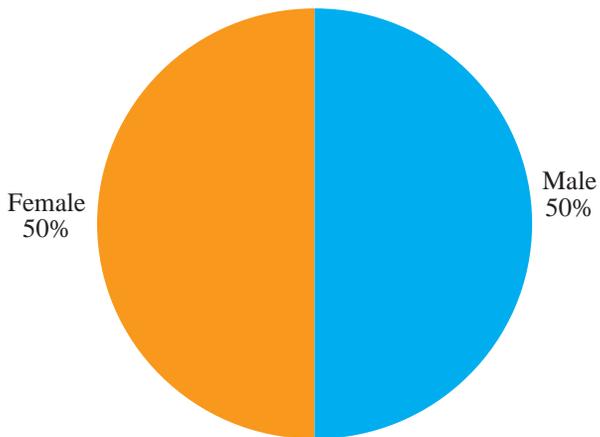
Age of Adult Population



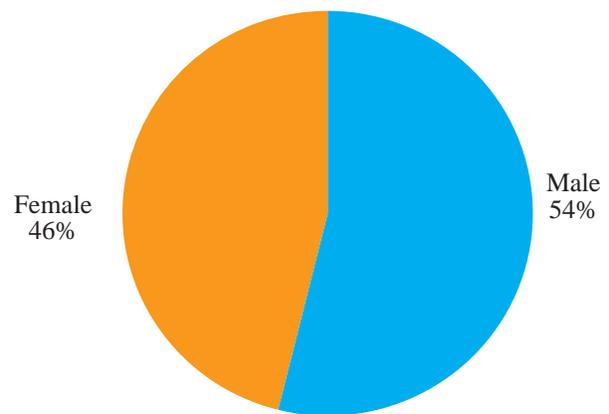
Age of Lottery Players



Gender of Adult Population



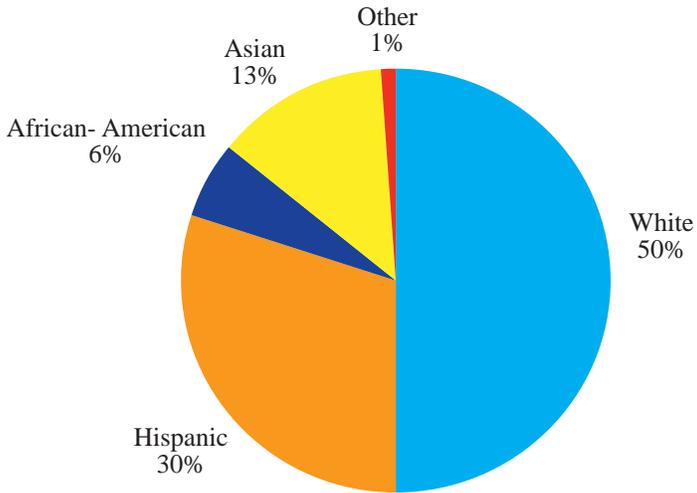
Gender of Lottery Players



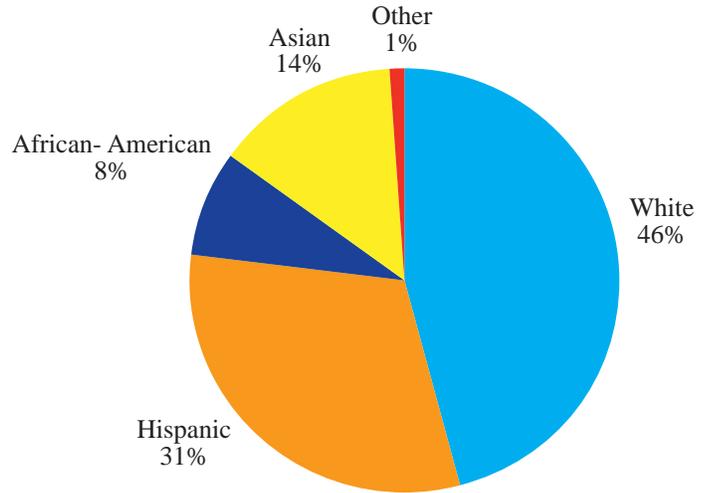
Note: All data are from Communications Effectiveness Tracking Study commissioned by the Lottery and provided by an external vendor for fiscal year 2010/2011. Percentages based on only those responding.

CALIFORNIA STATE LOTTERY
California Demographics for Population and Players

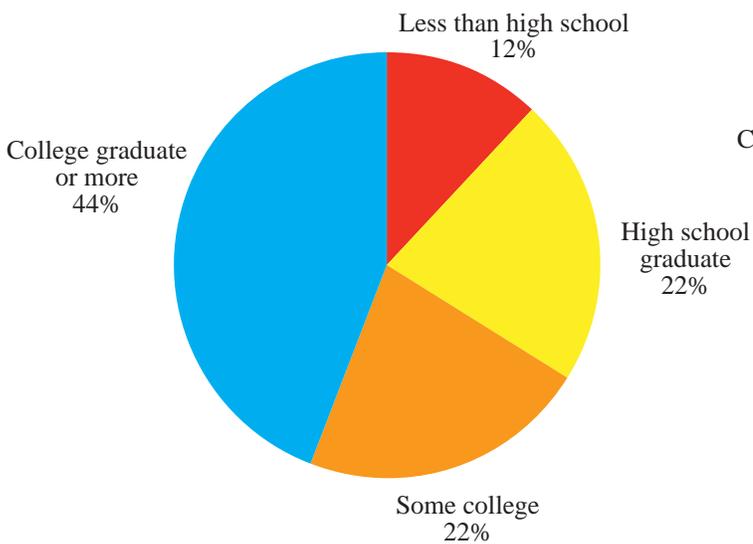
Ethnicity of Adult Population



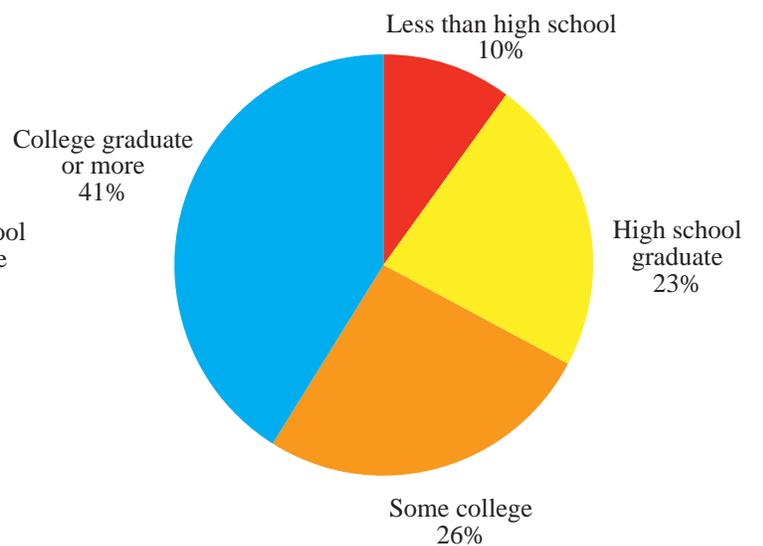
Ethnicity of Lottery Players



Education of Adult Population



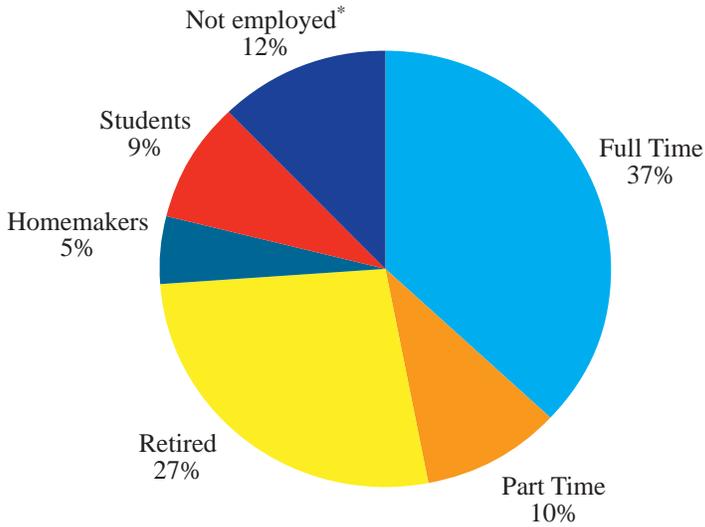
Education of Lottery Players



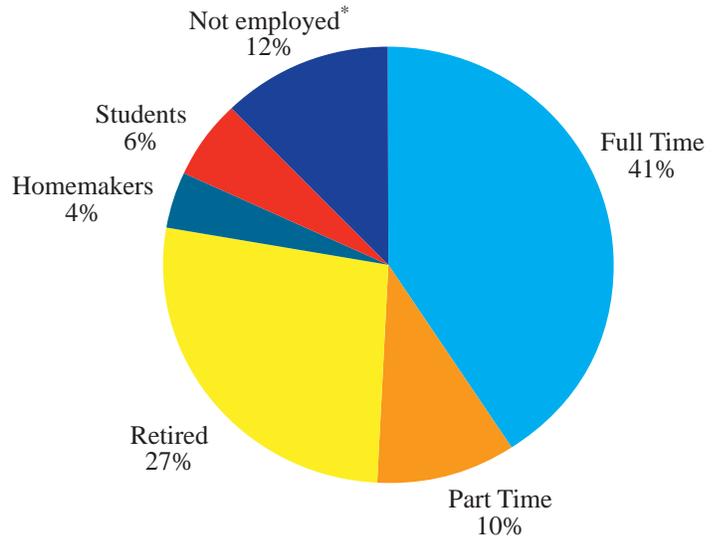
Note: All data are from Communications Effectiveness Tracking Study commissioned by the Lottery and provided by an external vendor for fiscal year 2010/2011. Percentages based on only those responding.

CALIFORNIA STATE LOTTERY
California Demographics for Population and Players

Employment Status of Adult Population

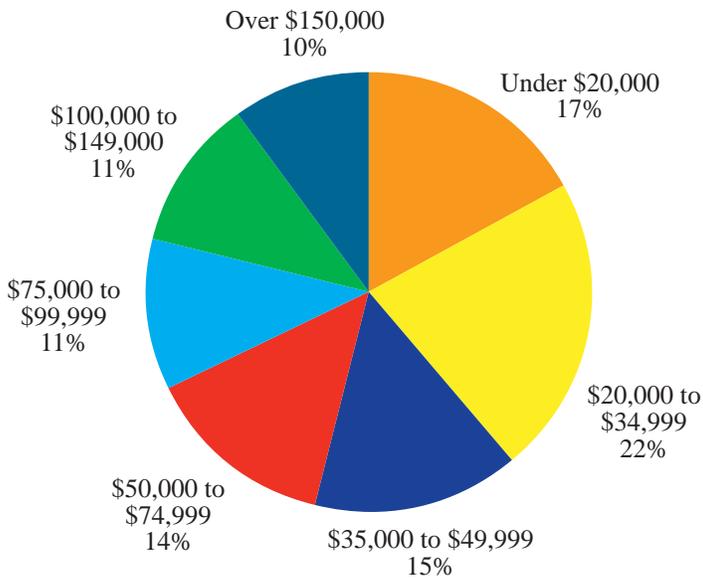


Employment Status of Lottery Players

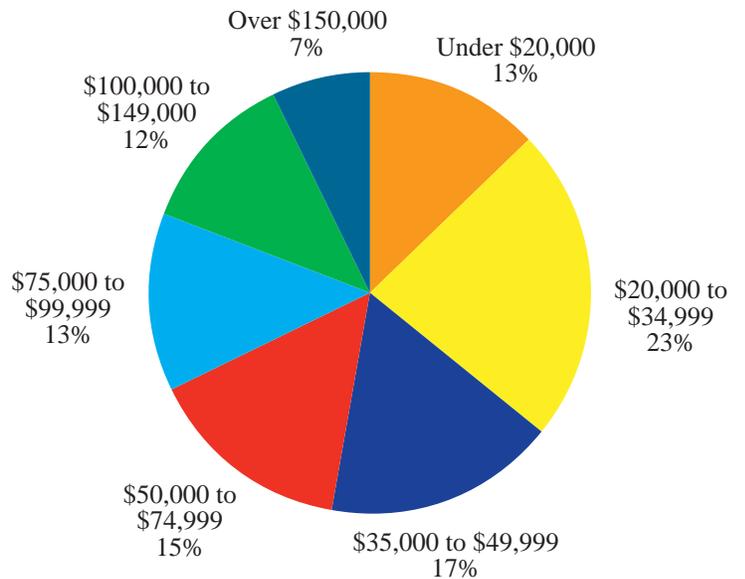


* Includes looking for job, disabled, welfare, etc.

Household Income of Adult Population



Household Income of Lottery Players



Note: All data are from Communications Effectiveness Tracking Study commissioned by the Lottery and provided by an external vendor for fiscal year 2010/2011. Percentages based on only those responding.

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U.S. Lottery Data For Fiscal Year 2010
Excludes Video Lottery Terminal (VLT) sales
(in millions)

	Sales	Prizes	Profit	Population	Sales/Capita
Arizona	\$551.5	\$334.5	\$141.9	6.6	\$84
Arkansas	\$383.7	\$251.0	\$82.6	2.9	\$133
California ⁺⁺	\$3,041.0	\$1,611.4	\$1,045.3	37.0	\$82
Colorado	\$501.2	\$310.4	\$112.9	5.0	\$100
Connecticut	\$996.8	\$608.8	\$285.5	3.5	\$283
Delaware	\$123.2	N/A	N/A	0.9	\$139
District of Columbia (ends 6/30)	\$233.9	\$118.5	\$69.6	0.6	\$390
Florida	\$3,900.5	N/A	N/A	18.5	\$210
Georgia	\$3,645.4	\$2,129.1	\$883.9	9.8	\$371
Idaho	\$146.9	N/A	N/A	1.5	\$95
Illinois	\$2,216.2	\$1,210.7	\$657.9	12.9	\$172
Indiana	\$739.1	N/A	N/A	6.4	\$115
Iowa	\$256.3	\$150.5	\$57.9	3.0	\$85
Kansas	\$243.7	N/A	N/A	2.8	\$86
Kentucky	\$772.5	\$484.6	\$214.2	4.3	\$179
Louisiana	\$372.4	\$189.7	\$133.7	4.5	\$83
Maine	\$217.3	N/A	\$52.2	1.3	\$165
Maryland	\$1,706.6	\$1,030.9	\$510.6	5.7	\$299
Massachusetts	\$4,412.1	\$3,174.9	\$903.5	6.6	\$669
Michigan ^{1,4}	\$2,348.0	\$1,392.5	\$704.2	10.0	\$236
Minnesota	\$499.0	\$305.2	\$122.6	5.3	\$95
Missouri	\$971.6	\$868.1	\$255.0	6.0	\$162
Montana	\$47.0	\$25.9	\$10.6	1.0	\$48
Nebraska	\$130.6	N/A	N/A	1.8	\$73
New Hampshire	\$233.2	\$121.8	\$66.0	1.3	\$176
New Jersey	\$2,605.2	\$1,501.7	\$893.6	8.7	\$299
New Mexico	\$143.6	\$78.6	\$43.6	2.0	\$71
New York ⁴	\$6,781.1	\$3,952.0	\$2,666.4	19.5	\$347
North Carolina	\$1,421.3	\$835.3	\$430.8	9.4	\$152
North Dakota	\$24.3	\$12.7	\$5.8	0.6	\$38
Ohio	\$2,487.1	\$1,525.2	\$728.6	11.5	\$215
Oklahoma	\$199.7	N/A	N/A	3.7	\$54
Oregon ^{2,3}	\$320.7	\$206.0	\$526.1	3.8	\$84
Pennsylvania	\$3,065.7	\$1,867.1	\$915.7	12.6	\$243
Rhode Island ^{2,3}	\$234.7	\$144.3	\$344.6	1.1	\$223
South Carolina	\$1,007.5	N/A	N/A	4.6	\$221
South Dakota ^{2,3}	\$45.7	\$25.5	\$116.9	0.8	\$56
Tennessee	\$1,138.4	\$664.0	\$288.9	6.3	\$181
Texas ⁴	\$3,738.4	\$2,299.6	\$1,007.8	24.8	\$151
Vermont	\$97.5	\$61.1	\$21.6	0.6	\$156
Virginia	\$1,435.1	\$852.7	\$430.2	7.9	\$182
Washington	\$491.0	N/A	N/A	6.7	\$74
West Virginia ^{2,3}	\$181.2	\$107.1	\$560.8	1.8	\$100
Wisconsin	\$480.8	N/A	N/A	5.7	\$85

2010 data source: La Fleur's Magazine September/October 2010
N/A denotes information that is unavailable
(1) Est Sales (2) Doesn't include VLT prizes
(3) Includes lottery and VLT profit

(4) Fiscal year ends June 30 except New York (March 31), Texas (August 31), and Michigan (Sept. 30)
⁺⁺ Audited figures with the exception of population

U.S. Lottery Data For Fiscal Year 2011
Excludes Video Lottery Terminal (VLT) sales
(in millions)

	Sales	Prizes	Profit	Population	Sales/Capita
Arizona	\$583.5	\$362.9	\$146.3	6.7	\$87
Arkansas	\$464.0	\$307.5	\$156.6	2.9	\$159
California ⁺⁺	\$3,438.6	\$1,904.8	\$1,123.7	37.3	\$92
Colorado	\$518.9	\$323.9	\$113.4	5.1	\$102
Connecticut	\$1,016.6	\$620.1	\$289.3	3.5	\$288
Delaware	\$124.0	N/A	N/A	0.9	\$139
District of Columbia (ends 6/30)	\$231.3	\$123.3	\$64.3	0.6	\$379
Florida	\$4,008.7	N/A	N/A	18.7	\$215
Georgia	\$3,597.9	\$2,120.8	\$846.1	9.9	\$363
Idaho	\$147.2	\$90.2	\$37.5	1.6	\$94
Illinois	\$2,278.8	\$1,414.6	\$690.0	12.9	\$176
Indiana	\$791.4	\$494.5	\$188.6	6.4	\$123
Iowa	\$271.4	\$158.9	\$112.5	3.0	\$90
Kansas	\$243.8	\$142.4	\$70.0	2.8	\$86
Kentucky	\$772.3	\$482.9	\$212.3	4.3	\$178
Louisiana	\$383.6	\$168.5	\$136.4	4.5	\$85
Maine	\$216.4	\$134.2	\$50.2	1.3	\$165
Maryland ^{2,3}	\$1,714.4	\$1,028.0	\$519.4	5.7	\$299
Massachusetts	\$4,403.3	N/A	N/A	6.6	\$664
Michigan ^{1,4}	\$2,364.1	\$1,383.4	\$731.9	9.9	\$238
Minnesota	\$504.4	\$311.0	\$121.9	5.3	\$95
Missouri	\$1,001.3	\$621.6	\$259.4	6.0	\$167
Montana	\$46.0	\$24.8	\$10.6	1.0	\$47
Nebraska	\$131.9	\$76.9	\$32.1	1.8	\$73
New Hampshire	\$228.4	\$139.3	\$62.3	1.3	\$173
New Jersey	\$2,636.4	\$1,542.2	\$890.9	8.7	\$302
New Mexico	\$135.5	\$73.6	\$41.3	2.0	\$67
New York ^{2,3,4}	\$6,758.7	\$3,968.1	\$3,049.2	19.6	\$345
North Carolina	\$1,461.1	\$861.6	\$437.4	9.5	\$154
North Dakota	\$23.0	\$46.1	\$92.2	0.7	\$35
Ohio	\$2,596.1	\$1,550.0	\$738.8	11.5	\$225
Oklahoma	\$198.2	\$106.6	\$69.4	3.7	\$53
Oregon ^{2,3}	\$317.5	\$206.4	\$560.0	3.9	\$82
Pennsylvania	\$3,207.9	\$2,179.4	\$960.0	12.6	\$254
Rhode Island ^{2,3}	\$230.7	\$142.3	\$354.9	1.1	\$218
South Carolina	\$1,047.1	N/A	\$271.0	4.6	\$228
South Dakota ^{2,3}	\$46.6	\$27.4	\$105.2	0.8	\$57
Tennessee	\$1,186.6	\$695.1	\$293.5	6.3	\$187
Texas ^{1,4}	\$3,783.2	\$2,425.2	\$960.6	25.2	\$150
Vermont	\$95.6	\$60.6	\$21.4	0.6	\$154
Virginia	\$1,482.7	\$881.0	\$435.2	8.0	\$186
Washington	\$510.5	N/A	N/A	6.7	\$76
West Virginia ^{2,3}	\$193.6	\$119.5	N/A	1.8	\$106
Wisconsin	\$502.5	N/A	N/A	5.7	\$89

2011 data source: La Fleur's Magazine September/October 2011

CALIFORNIA STATE LOTTERY
Number of Employees
Last Ten Fiscal Years

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Executive ⁴	43	45	44	42	34	27	28	30	42	42
Finance & Administration/Finance ^{1,3}	118	118	118	119	139	127	69	67	70	70
Human Resources ³	-	-	-	-	-	-	22	24	24	24
Operations ^{3,4}	-	-	-	-	-	-	49	50	40	40
Corporate Communications ³	-	-	-	-	-	23	13	9	8	8
Customer Service ¹	30	34	30	30	-	-	-	-	-	-
Security/Law Enforcement	43	37	37	43	42	44	47	48	49	49
Information Technology Services	124	119	124	125	94	93	85	88	88	88
Marketing ³	29	35	35	29	29	34	-	-	-	-
Sales/Sales & Marketing ³	263	262	262	262	256	272	324	324	323	323
Vacant ²	-	-	-	-	56	-	-	-	-	-
Total	650	650	650	650	650	620	637	640	644	644

Source: California State Lottery, Annual Administrative Support Budget for each relevant year

(1) In fiscal year 2005/2006, the Customer Services Division was renamed to Claims and Player Services Department and redirected to the Finance and Administration Division as a part of a reorganization.

(2) In fiscal year 2005/2006, 56 vacant positions were identified to remain vacant. As a result of an organizational efficiency review, 30 of those vacant positions were eliminated and the remaining 26 vacant positions were reallocated among various divisions in fiscal year 2006/2007.

(3) In fiscal year 2008/2009, the Lottery underwent a reorganization. The Finance & Administration Division was divided into three separate divisions: Finance, Human Resources and Operations. As a result of this reorganization, positions were redirected accordingly. In addition, some positions were redirected from the Corporate Communications Division to Operations. The Marketing Division and the Sales Division were combined into one division.

(4) In fiscal year 2009/2010, the Lottery underwent a reorganization. The Enterprise Project Management Office and Contracts were redirected from the Operations Division to the Executive Division.

CALIFORNIA STATE LOTTERY

Information about Operating Indicators

The economic climate has not hampered the California Lottery's ability to maximize supplemental funding for its beneficiary. For the second year in a row, Lottery sales have increased. For Fiscal Year 2010-2011, the Lottery reported sales of nearly \$3.44 billion, which represents a 13 percent increase from last fiscal year's total of \$3.04 billion. In total, the Lottery sent \$38.8 million more to California's public schools this year than last year – almost \$1.13 billion in FY 2010-2011. This was the eleventh consecutive year the Lottery was able to provide more than one billion dollars to supplement California's public school budgets.

In the past year, California schools received more money thanks to a sales increase fueled by strong Scratchers and MEGA Millions game sales. The MEGA Millions game was boosted by an award-winning advertising campaign and two jackpots in excess of \$300 million. Scratchers sales saw an enormous increase due to the Lottery's ability to control how much money it pays out in prizes, a privilege that was granted by the signing into law of Assembly Bill 142 by Assemblymember Mary Hayashi in April 2010.

Also in April 2010, the Lottery unveiled a new three-year business plan that was designed to fundamentally strengthen how the Lottery conducts its business. The plan has already proven its value by allowing the Lottery to further streamline its business practices. With great new games, promotions, and a responsible business plan, the Lottery expects to take its sales to new highs in 2011-2012.

The provisions of Assembly Bill 142 have, in a short period of time, achieved exactly what they were intended to achieve – more money for California public schools. However, this is just the beginning. With the Lottery's sustained growth strategy, Lottery management expects that this law will continue to pay dividends for years to come.

CALIFORNIA STATE LOTTERY
Capital Assets, Net
Last Ten Fiscal Years

	2002	2003	2004	2005
Land	4,922,805	4,922,805	4,922,805	4,922,805
Gaming Terminals	3,293,125	1,260,096	22,640	154,651
Common carrier public network	313,737	77,821	-	-
Vending Machines	3,990,365	14,656,142	11,390,305	14,860,156
Buildings	15,059,966	15,427,027	14,700,813	15,859,317
Data processing equipment	3,455,075	3,604,517	3,727,470	2,752,714
Office furniture and equipment	893,072	813,845	964,074	714,270
Leasehold improvements	52,754	103,149	132,716	98,614
Other	3,371,236	2,998,107	2,210,971	1,605,508
Total capital assets	35,352,134	43,863,510	38,071,794	40,968,035

CALIFORNIA STATE LOTTERY
Contributions to Education
Last Ten Fiscal Years

	2002	2003	2004	2005
Allocations to Education Fund	1,027,185,343	976,998,004	1,044,061,703	1,148,775,087
Unclaimed prizes	36,878,803	42,818,968	50,195,285	27,019,168
Total Contributions to Education	1,064,064,146	1,019,816,972	1,094,256,988	1,175,794,255

2006	2007	2008	2009	2010	2011
4,922,805	4,922,805	6,469,219	6,469,219	6,469,219	6,469,219
120,608	14,154,156	12,831,183	12,670,664	6,365,357	3,916,645
-	-	-	-	-	-
16,824,801	10,805,729	6,238,000	3,368,057	857,039	-
16,522,310	15,616,279	19,340,110	16,687,975	23,252,649	64,304,922
2,175,973	1,346,488	1,083,275	667,642	348,351	4,487,258
1,135,533	1,324,713	2,015,682	2,279,846	1,508,253	4,625,176
173,060	591,084	555,708	455,846	323,349	243,730
1,051,792	1,441,768	1,943,315	2,766,924	3,387,109	2,458,651
42,926,882	50,203,022	50,476,492	45,366,173	42,511,326	86,505,601

2006	2007	2008	2009	2010	2011
1,258,507,917	1,176,929,117	1,069,328,092	1,027,728,959	1,072,496,752	1,102,860,768
29,490,162	29,217,965	25,617,218	20,964,857	17,250,466	25,690,477
1,287,998,079	1,206,147,082	1,094,945,310	1,048,693,816	1,089,747,218	1,128,551,245



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